



**Deloitte.**

德勤

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Industry in China 2015.**

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# Development of Private School & Education Industry in China 2015

## (simplified version)

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# Major Findings

The year 2014 was a very important year for Chinese private education market. Qtone Education, Tarena Education, Anly Education, and Maple Leaf Education went to public respectively. New Third Board, as an important supplement to A-Share mainboard, has also become a choice for education companies to enter domestic capital market. The formation of education enterprise cluster will exert positive influence on performance of education industry in mainboard.

In recent years, the reform of education laws and regulations has gradually fuelled the boom of capital market. However, educational reform at national level continues to move on. Premier Li Keqiang presided over the executive meeting of the State Council On January 7, 2015, discussed and approved a draft amendment to education laws, approved a draft amendment to package modification of education law, higher education law, and private education promotion law, and decided to submit them to Standing Committee of NPC for deliberation. It is clarified in the draft that "private schools will be subjected to classified management and profitable private schools are allowed to be established". This will greatly promote the robust development of private education market.

Under the backdrop of favourable policies towards education industry, a sunrise industry, an increasing number of commercial organizations choose to cross industry boundary and enter education field. There are not only platform-oriented cross-industry cases with Internet giants as representatives, but also integration-oriented cross-industry cases with a purpose of strengthening industrial chain extension. The emergence of cross-industry cases means that more capital will enter into education industry, thereby objectively accelerating industry integration and development. However, considering characteristics of education industry, enterprises that cross industry boundary are required to be more cautious and gain a better understanding of education in order to carry out successful integration.

Under the joint influence of various driving factors such as national policies, employment status, industrial upgrading and development of information technology, the scale of vocational education industry will be further expanded, thereby gaining advantage of industrialization. The combination of "online + offline" mode will become the major development trend for vocational training institutions. With a shortage of senior technical talents resulted from China's industrial upgrading and continuous development of emerging industries such as information technology, finance and accounting, and bio-medicine, there will be more startups in segments of mid- and high-end customized and interactive vocational training.

Meanwhile, China's economy growth has stimulated the increase of Chinese abroad students, thereby bringing huge market interests for abroad education agencies. However, under the backdrop of requirement on characteristics and background of abroad students and technological innovations, ecological environment of abroad education industry is experiencing tremendous changes. From the perspective of abroad study service agencies, existing mode has failed to satisfy the need brought about by rapid market changes. With the industry facing a turning point, integrated

development and a combination of online and offline mode will be the general direction of future development. With regard to education agencies, in spite of robust market demand for international education, international classes of various high schools will experience transition under the context of gradually tightening policies. At the same time, while Chinese-foreign cooperative education programs and institutions in various forms have been constantly launched, those which are excessively profit-driven and of poor quality will face stricter regulation.

# I. Current status of development of China's Private education industry

In the past year, driven by the dual force of policy and market, private capital will accelerate the pace of entering into education industry to participate in the reform and development of educational enterprise. Market of China's private education takes on the structure of universal coverage and diversified development, with a relatively complete private education system ranging from early childhood education to higher education, from basic education to various vocational and technical education, thereby constituting a powerful complementary to public education.

## 1.1 Listed education companies see growth in revenue while IPO market rebounds

With regard to performance of listed education companies, revenue of Chinese listed education companies has amounted to 2.291 billion dollars in 2014, increased by 15% compared with 1.997 billion dollars in 2013, with an average net profit margin of 14% or so. While ChinaEdu Corporation and Noah Education were delisted through privatization, Qtone Education, Tarena Education, Anly Education, and Maple Leaf Education went to public respectively. In January 2014, Guangdong Qtone Education Co., Ltd. was listed on ChiNext of Shenzhen Stock Exchange. In early April, Tarena Education, a vocational IT education agency, was successfully listed in United States. Subsequently in June, plan of Anly Education to be listed through buying shell of Shanghai Xin Nanyang Co., Ltd. was unconditionally approved by China Securities Regulatory Commission. In December, Dalian Maple Leaf Education was listed on Main Board of HKEx. It can be seen that IPO process of education companies gradually shows sign of a pickup.

**Figure Comparison on revenue of listed education companies 2014/2013**

Education companies	Total revenue in the most recent four quarters to date in 2014 (million dollars)	Total revenue in the corresponding four quarters in 2013 (million dollars)	Revenue growth rate	Net profit in the most recent four quarters as of the date of this report (million dollars)	Data as of
New Oriental	1,172	1,055	11%	205	30/11/2014
Tomorrow Advancing Life	397.8	287	39%	70.1	30/11/2014

Xueda Education	338	347	-3%	-10	31/12/2014
Tarena Education	136.2	93	47%	24.7	31/12/2014
China Distance Education	100	77	30%	24.6	31/12/2014
Maple Leaf Education	87	76	14%	8	31/08/2014
ATA	60	62	-4%	4	31/12/2014
Qtone Education	59.4	28.2	12%	7.3	31/12/2014
Total	2,321.9	2,025.2	18.3%	333.7	

Source: Annual reports of listed companies, Deloitte Research

## 1.2 More cross-industry capital is invested in education market

With China's economic structure undergoing transformation, it is estimated that market scale of education industry, as a rigid-demand-oriented industry concerning basic livelihood of people, will hit trillion dollars. Although China's educational appropriations have grabbed 4% of GDP, it still fails to fully meet the growing demand for diversification in various education sectors, especially in terms of preschool education, basic education and vocational education, leaving huge gaps in the market which are quite attractive to capital and talents. In addition, internet thinking has disrupted traditional education training industry which is gradually losing its barriers and advantages accumulated over the years, thereby providing a rare opportunity for cross-industry capital to overtake on a corner.

The cross-industry phenomenon means that more capital will enter into education industry, thereby objectively accelerating industry integration and development. However, considering characteristics of education industry, enterprises that cross industry boundary are required to be more cautious in decision-making and more active in integrating resources so as to realize synergy effect after they cross industry boundary.

## 1.3 Total number of private schools keeps rising with private kindergartens taking the lead

Supported by policies and the government, China's private schools show the trend of vigorous development. From 2010 to 2013, total number of various private schools has increased from 119 thousand to 149 thousand, rose by 26% with a compound annual growth rate of 8%. Among them, the number of private kindergartens, primary schools, and middle schools respectively increased by 30%, 10%, and 6%. While private secondary vocational schools, high schools and independent colleges decreased by 21%, 5% and 10% respectively, private colleges and universities rose by 6%. It can be seen that private education shows the tendency towards high-end

education at younger age. Affected by population structure and market demand, private high schools and vocational education have shrunk to some extent.

#### **1.4 Market, technology and capital promote the rapid development of online education**

With the wide spread of a series of online educational videos such as open courses from various universities and MOOC, online education has become a new hot spot for the growth of education industry. With accelerated update of knowledge, job content and knowledge structure in different fields also show the trend of cross-boundary integration, making the demand for universal continuing education and relearning more imperative. With China's current Internet penetration to hit the 50% mark (which was 45% in 2013) and rapid popularization of Mobile Terminal, online education, featured by diversified contents and fragmentation of learning, constitutes an important approach to supplementing traditional education and reeducation of netizens.



## II. Changes of laws and regulations in the education field and the consequent influence

Over more than two decades since the release of *Outline for Reform and Development of Education in China* in 1993, China's private education has experienced rapid growth and gradually developed relevant branch markets within the industry, thereby forming a huge industrial chain. However, private education is still obviously affected by policy changes. After Deng Xiaoping's South China Tour, schools run by non-government resources have developed rapidly, with legislation regarding them elevated from rules to local regulations, administrative regulations and even to the level of laws. However, "institution and mechanism" regarding private education continue to be the bottleneck restricting its development, while appeal to promotion policies based on fairness and expectation for a loose environment also constitute major concerns for practitioners in private education industry.

### 2.1 Evolution of relevant laws and regulations regarding private education

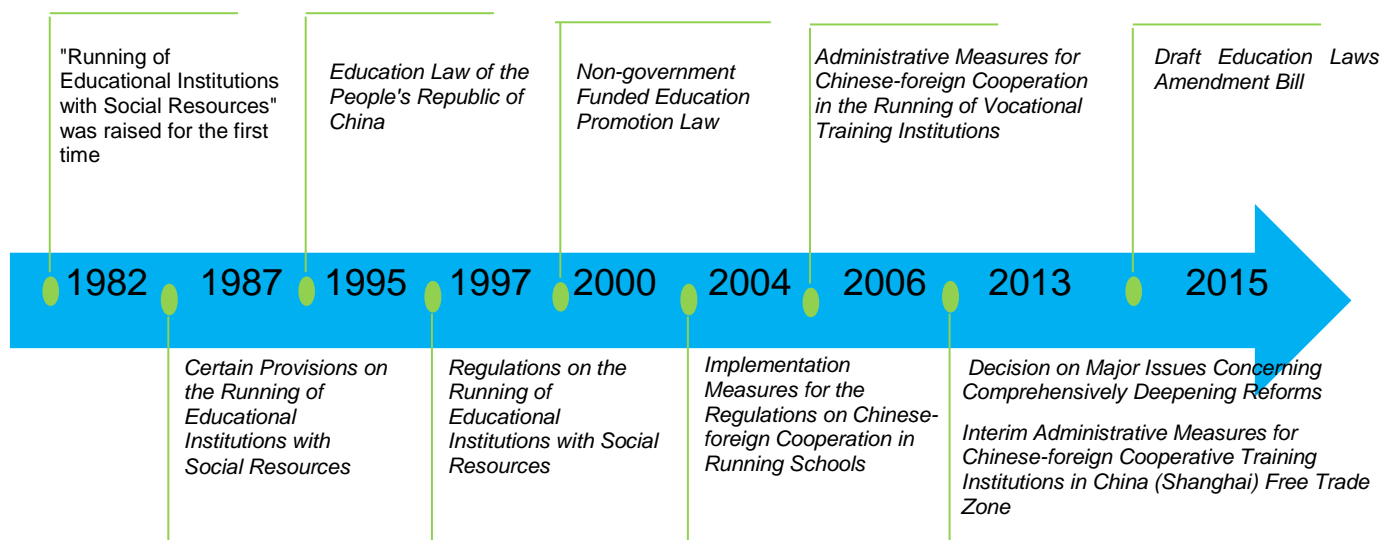
Government's definition of the nature and positioning of private education has undergone several changes over the times. It has been clarified for the first time in the *Constitution of the People's Republic of China* passed in the Fifth Session of the Fifth National People's Congress in 1982 that "China encourages collective economic organizations, national enterprises, public institutions and other social forces to run all kinds of education undertakings in accordance with laws".

In the following two decades, the Ministry of Education has successively released or amended *Certain Provisions on the Running of Educational Institutions with Social Resources*, *Education Law of the People's Republic of China*, and *Regulations on the Running of Educational Institutions with Social Resources*. It is not difficult to figure out from these laws and regulations that the government is still inclined to define private education agencies as non-profit public organizations, "any organization or individual shall run schools or other educational institutions not for the purpose of profit".

Legislation regarding private education has also made new breakthrough since 2000. In *Private Education Promotion Law* approved and passed by Standing Committee of the NPC in 2003, the statement "not for the purpose of profit" has been deleted for the first time, indicating that the government allows educational institutions to gain reasonable returns within the scope prescribed by laws.

In the executive meeting of the State Council in January 2015, draft amendments to education law, higher education law and private education promotion law has been approved, and it is decided that they will be submitted to Standing Committee of the NPC for deliberation. It is clarified in the draft that private schools will be subjected to classified management and profitable private schools are allowed to be established.

Universities with rich education resources will introduce more market-oriented operation, and some university-run enterprises related to education industry will receive greater policy and legal support.



## 2.2 Loosening up of education laws promotes enterprises to enter capital market

### 2.2.1 Overseas capital market

Restricted by domestic laws, scaled and market-oriented education companies in China have to seek to be listed overseas in VIE structure. *Private Education Promotion Law* and *Regulations on Chinese-foreign Cooperation in Running Schools* have prohibited foreign ownership of Chinese primary schools and middle schools. Meanwhile, *Catalogue of Industries for Guiding Foreign Investment* has also made specific requirement on foreign-funded high schools. Take Maple Leaf Education as an example. In order to reduce potential conflicts with existing education laws and regulations, Maple Leaf Education has adopted contractual arrangements in the designing of VIE structure. With a background in both private education and Chinese-foreign cooperation in running schools, it will be subjected to supervision of both private education laws and regulations on Chinese-foreign cooperation in running schools.

However, with the official release of *Draft Foreign Investment Law of the People's Republic of China* by Ministry of Commerce, the legitimacy of VIE mode and practical aspects of investment will be included in legal supervision at the level of national policy. In the future, domestic companies controlled by foreign investors will be regarded as foreign-funded enterprises, while investment in China made by foreign investors that are controlled by Chinese investors may be regarded as Chinese investment, therefore, domestic enterprises listed abroad via VIE mode is expected to receive national treatment. However, while the *Draft* will make room for domestic privately owned VIE enterprises, foreign funded VIE enterprises may fail to enter into restricted or prohibited industries. The influence of the new act on education agencies which seek to be listed overseas in VIE structure will be a new focus.

### 2.2.2 Domestic capital market

Due to some historical reasons, it has always been controversial as to the profitability of education assets, which objectively hinders the possibility of relevant assets to be listed for financing. However, it has been clarified for the first time in the *Decision on Major Issues Concerning Comprehensively Deepening Reforms* released in the Third Plenary Session of the 18th CPC Central Committee that the role of market should be brought into full play in the field of education by means of shareholding, mixed ownership under the new principle of running schools with market forces. In order to coordinate with related regulations of the central government, some local governments have also made relevant adjustment in their education policies and regulations. In July 2013, Shanghai municipal government has announced that all local profit-making education and training companies are entitled to apply for formal qualification. In June 2014, Xin Nanyang has successfully completed its secondary restructuring, thanks to the classified management. Since branch education and training agencies of Anly Education are mostly located in Shanghai, they are all entitled to the benefits of current policies which loosen up government control on qualification of profit-making education and training enterprises. According to existing regulations of Shanghai municipal government, branch education and training agencies of Anly Education may apply for formal qualification as profit-making education and training companies in accordance with regulations.

In recent years, educational reform at national level continues to move on. Premier Li Keqiang presided over the executive meeting of the State Council On January 7, 2015, discussed and approved a draft amendment to education laws, approved a draft amendment to package modification of education law, higher education law, and private education promotion law, and decided to submit them to Standing Committee of NPC for deliberation. It is clarified in the draft that "private schools will be subjected to classified management and profitable private schools are allowed to be established".

It is believed by Deloitte that after several years of development, China's private education has already played an important role in the diversification and richness of China's modern education. With the further deepening of legal reform in the education field, profit-making private educational institutions are likely to be recognized by Chinese laws for the first time. However, it should also be noted that while Chinese government proposes to encourage education funded by social capital, threshold for the running of educational institutions remains high according to existing policies, with extremely strict and specific regulations in terms of education scale and registered capital. It still takes time to figure out how to implement new education policies and whether private education will see a significant boost.

### 2.3 Update of laws and regulations regarding vocational education accelerates its development

In recent years, China's vocational education has witnessed a rapid development with the steady advance of system building. However, China's existing vocational education, having failed to fully meet the need of economic and social development, still calls for structural adjustment. Under this backdrop, central government has also started to accelerate the reform of modern vocational education, with the successive release of a series of relevant policies that facilitate the development of vocational education.

In June 2014, the State Council has released the *Decision on Accelerating the Development of Modern Vocational Education*, proposing to enhance the communication between vocational education and general education so as to build a flyover for students to make diversified choices and become successful through different approaches. The primary purpose is to change the traditional social perception of vocational education as "defective education", and meet the demand of China's industrial development and upgrading by cultivating skilled talents. A key aspect of the *Decision* is to establish classified system for institutions of higher learning, in other words, to guide some schools to transform to application-based technical colleges and universities by introducing enrolment, assessment and investment mechanism.

This administration has paid special attention to vocational education, with several national leaders including Xi Jinping, Li Keqiang, and Liu Yandong referring to or approving proposals to reform the system building of vocational education. The release of the *Decision* by the State Council marks that vocational education reform this time is "unprecedented in terms of leadership attention, intensity of reform and cooperation among departments". It is foreseeable that significant changes will take place in China's vocational education system. Both private vocational schools and online education companies may get a piece of the pie from the development of vocational education by combining online education and school education.



# III. Vocational training

In recent years, China has released supportive education policies and vigorously promoted educational reform. With constant policy benefits and steady increase in education investment, education industry has made considerable development. Vocational education and training, capturing the largest share, has attracted the attention of various investors with promising prospect for development. This chapter will focus on current development, driving factors, and representative business models of China's vocational education.

In 2014, the release of *Decision on Accelerating the Development of Modern Vocational Education* by the State Council has promoted the development of China's vocational education. According to the *Decision*, it is estimated that "by 2020, there will be 23.5 million students receiving secondary vocational education, 14.8 million students receiving vocational education at college level, and the number of students receiving vocational education at university level will also reach a certain scale. The number of practitioners receiving continuing education will hit 350 million." Based on the statistics above, it is forecasted by Huatai Securities that by 2020, market size of China's vocational education is expected to hit a trillion yuan.

## 3.1 Driving factors for development

Driven by various external factors including release of supportive policies, increasingly fierce competition for jobs, growing demand for enterprise talents, constant development of information technology, and rising willingness of trainees, China's vocational education and training shows dynamic growth momentum.

### 3.1.1 Vocational education is vigorously supported by national policies

Chinese government has paid unprecedented attention to vocational education. In the executive meeting of the State Council on February 26, 2014, Premier Li Keqiang has stressed the opinion that "the running of vocational educational institutions with social resources should be supported", which has exerted positive influence on vocational education market in the society. Since the end of 2013, the government has promoted the development of vocational education and training by means of releasing new policies and amending laws and regulations. It is believed by Deloitte that these policies, laws and regulations will affect vocational education industry from the following three perspectives:

- Cooperation between vocational schools and commercial vocational training agencies will gradually witness an increase.
- The running of educational institutions with social resources will be encouraged.
- Amendments to laws will recognize the profitability of private education.

### **3.1.2 Competition for jobs among Chinese graduates becomes increasingly severe**

Since the implementation of enrolment expansion of colleges and universities in 1998, the number of China's university graduates has kept an obvious increase. According to statistics from the Ministry of Education, the number of domestic university graduates has totalled 7.27 million in the past year of 2014, increased by 0.28 million compared with that of 2013, which was once dubbed "the hardest year for job-hunting", hitting a new record high.

Although multiple departments and ministries have made joint effort by taking comprehensive measures to facilitate employment of university graduates, employment rate of university graduates has shown continuous downward trend. By 2014, initial employment rate of fresh graduates from colleges and universities nationwide is just slightly higher than 70%.

### **3.1.3 Industrial upgrading has resulted in a shortage of senior technical talents**

Traditionally, China's vocational education and training have just targeted at labour intensive industries with relatively low requirement on knowledge and technology of practitioners, which has, to a certain extent, restricted industry development. Compared with application-oriented talents in developed countries, China's senior technical talents still occupy a lower proportion, while junior technical talents grab a larger share than those in developed countries.

With the transformation and upgrading of China's industrial structure and continuous development of emerging industries such as information technology, finance and accounting, and bio-medicine, there is a much higher requirement on expertise and practical skills of talents in certain fields. However, skilled talents who well meet the enterprise demand are quite rare in the market, highlighting the shortage of talents with outstanding practical skills.

Meanwhile, with the upgrading of industrial structure and increasingly fierce international competition, there is also a higher requirement on quality and capability of internal management staff of enterprises, engendering the development of training courses in such fields as financial management, organizational management and so on. In addition, adjustment and transformation of industrial structure have provided huge room and opportunities to entrepreneurs, giving rise to the emergence of high-end training customized for entrepreneurs.

### **3.1.4 Internet technology has developed and become popularized**

As basic information construction moves on, China has witnessed an increasingly higher Internet penetration, with mobile Internet penetration showing the most amazing growth rate. Therefore, vocational education providers have begun to lay out Internet channels one after another, especially in the field of mobile Internet. The era of informationization has promoted the development and reform of the entire education and training industry including vocational education.

### **3.1.5 Job seekers are increasingly willing to invest in vocational education**

With the rise of China's per capita consumption and aggravation of social competition, expenditure of each Chinese family in culture, education and recreation

has kept climbing. However, China's current school education has seriously departed from actual needs of enterprises for talents. As a result, a growing number of job seekers who are still studying in schools have made a remedy in this regard by relevant vocational training in an attempt to seek better job opportunities. Meanwhile, due to accelerated circulation of human resources and preference towards vocational certificates, the demand for vocational education and training among the employed also keeps rising.

### **3.1.6 Capital has promoted the development of vocational education**

Startups in vocational education have witnessed an increase of investment funds because investors are optimistic about the development of vocational education. It is estimated by Sohu education that in the first 11 months of 2014, financing programs regarding vocational education have far exceeded other subsectors of education industry both in terms of quantity and fund raised. According to relevant data of domestic and abroad financing cases regarding vocational education in 2014 obtained by open web search, the majority of 28 domestic cases involve online education. At the same time, vocational education programs in the field of IT have far outnumbered that in other fields.

## **3.2 Competitive structure of the industry**

With increasing government attention paid to vocational education, traditional education agencies, Internet giants and startups haven taken advantage of supportive policies and entered into the industry, while investment agencies also remain bullish about vocational education. With industry development and integration, some leading companies in certain segments of the industry have already stood out. A relatively stable layout with leaders within the industry has gradually come into being in some subsectors such as IT education, civil service exam, finance and accounting, finance, and architecture, with increased concentration ratio of the industry. Those leading companies include Tarena Education, APTECH, Xinhua Computer Education in IT training, Zhonggong Education and Huatu Education in civil service exam, chinaacc.com and dongao.com in finance and accounting, and Shsun Education in architecture.

### **3.2.1 Traditional education agencies snatch market share in vocational education**

Traditional education agencies have entered into vocational education with a purpose of fostering the diversity of their products and services. On the one hand, this would help avoid risk resulted from the cycle of industry development. On the other hand, this would help make "continuous learning" or even "lifetime learning" plans for their regular customers. Such education agencies usually have the following characteristics:

- Positive brand effect and stable consumer groups
- Mature nationwide or regional channels
- Synergy effect with existing businesses
- Brave new sub-brands

### **3.2.2 Internet giants enter into the field of education**

In recent years, Internet giants have constantly increased their investment in education and training industry with their unique advantages. Baidu has fully developed knowledge and learning-oriented products including "Baidu Knows + Baidu Encyclopedia + Baidu Library ", and Baidu Education website navigation which is newly launched with relevant information regarding vocational education classified and focused in the sector of "work"; Alibaba, as a pure E-Business company, has launched the primary sector of "Ali schoolmates" and integrated existing education and training products into it, with "vocational training", "skills training" and "marketing management", which occupy a large proportion in courses opened in taobao schoolmates, in the top bars and classified as vocational education; Tencent has established Tencent class platform, which not only provides training regarding such fields as career planning, finance and accounting, and IT, but also introduces vocational training courses including online marketing, SNS marketing and SOE/SME by incorporating its business advantages. With BAT, the three Internet giant comprised of Baidu, Alibaba and Tencent, entering into education and training industry by means of "merger and new establishment", Internet giants crossing industry boundary to snatch market share in education has become the most remarkable phenomenon in the field of TMT.

### **3.2.3 Startups emerge in a large number**

In recent years, there are a growing number of small sized exquisite startups in the field of vocational education. Although it remains uncertain as to the business development of each enterprise and quite a few startups have failed to find proper profit model, it may still be concluded that they are common in the following aspects.

- Emphasis on learning experience
- Advantages of cooperating with universities and enterprises
- Highly vertical

### **3.2.4 Non-educational agencies cross industry boundary for development**

At the same time, it should be noted that some non-educational agencies have launched education and training services concerning relevant industry with their industry expertise and brands. In the long term, these agencies may cultivate talents in a more targeted way based on the need of their own business development, thereby taking the initiative in the reserve and utilization of human resources. Typical cases of cross-industry development include Ming Jewelry, Hongtao Decoration, and Crystal Education.

## **3.3 An exploration of business models of vocational education**

With increasingly diversified need for vocational education and rapid growth of industry participants, business models of vocational education also flourishes in diversified ways. Various enterprises and agencies have actively explored online-offline integration and link between training and employment in an attempt to refine and deepen their vertical service and platform expansion.

This chapter includes specific case study. Please read the full version of this report for details.

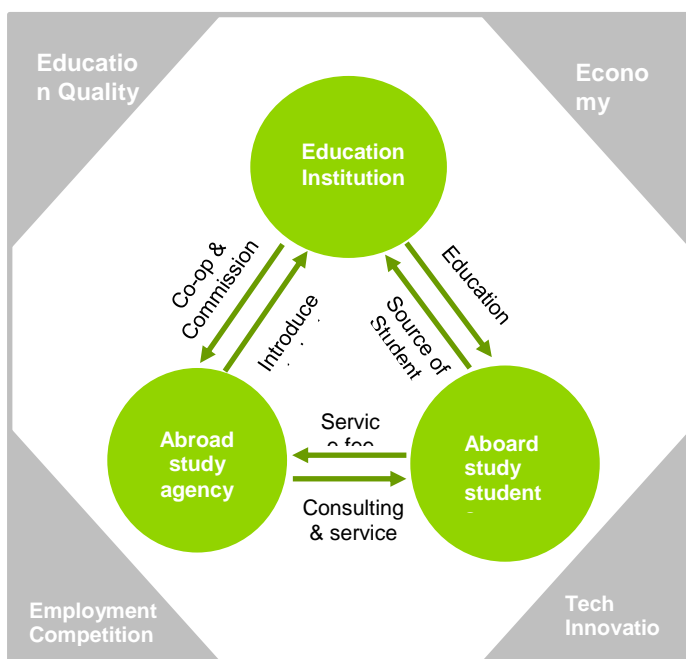


# IV. Outlook on the trend of abroad education industry and international education

Abroad education industry is comprised of three major parts. The first is abroad students, covering students at all levels (and their parents) who are willing to study abroad. As core consumers of this industry, their needs are the motive power for the development of the entire industry. The second part is abroad study service agencies, which provide important channels and constitute critical value-creation sector of the industry. The third part is educational institutions, which are in charge of core university resources, screening rules and enrollment of abroad students, and their policies exert profound influence on abroad students as well as abroad study service agencies.

According to statistics from eol.cn, current size of abroad education industry has exceeded RMB 200 billion yuan, including abroad study agency fees (about RMB 4 billion yuan capturing 2% of the total), training fees (about RMB 26 billion yuan occupying 13% of the total) and consumption abroad (about RMB 170 billion yuan grabbing 85% of the total). With consumption abroad far exceeding that within China, it is manifested that consumption need shows "outflow phenomenon". Under the backdrop of requirement on characteristics and background of abroad students and technological innovations, ecological environment of abroad education industry is experiencing tremendous changes.

**Figure Ecosphere of abroad education industry**



Source: Deloitte Analysis

## **4.1 Abroad students**

### **4.1.1 Market of abroad study will embrace a new round of development**

Driven by multiple internal and external factors, the number of China's abroad students keeps growing. However, impetus of internal driving factors has resulted in the circulation of external driving factors. Internally, four factors including improvement of economic level, diversification of higher education mechanism, enhanced job competitiveness, and immigration have propelled the increase of abroad students.

### **4.1.2 Delicacy management mode**

In recent years, the number of abroad students has gradually slowed down. There are mainly two reasons for this. The first reason is that abroad students take a more rational look at possible returns of abroad education and start to weigh capital output ratio of studying abroad. The second reason is that there is a gap between the expected salary and actual salary when they come back home for jobs. As a result of these two reasons, abroad students are more cautious in making decisions.

The demand of abroad students has directly influenced the size of the entire abroad education market. With the slowdown in demand growth, the industry gradually becomes stable with intensified industry competition. Therefore, it is imperative for various abroad study service agencies to change the previous extensive operation mode and turn to delicacy management mode in an attempt to create a barrier to competition by digging into market segments that they are specialized in.

### **4.1.3 The key is diversified and customized services**

As the main groups and consumers of future abroad education, post-95s and post-00s are quite willing to release information and express opinions in various social channels, and they prefer the pursuit of personality and independence. Differentiation of individual characteristics will force abroad study service agencies to offer customized and personalized services. Understanding the new generation's demand for the depth of abroad education will enable abroad study service agencies to develop better products and services. It would also help further marketing these agencies to target clients and formulate plans for studying abroad in a more targeted way so as to cope with various problems abroad students may possibly encounter before, during and after the process, thereby improving the competitiveness of abroad study service agencies.

### **4.1.4 The demand for studying abroad at younger age arises**

In recent years, the age composition of abroad students has seen relatively big changes, with a particularly obvious tendency towards younger students. The rise of abroad education market targeted at younger students has provided new profit point for abroad study service agencies. Besides, Chinese parents have attached great importance to education and are willing to make long-term investment in this regard. Under this backdrop, it is expected that there will be objective and potential demand for the market of abroad education at younger age in the future. If abroad education agencies may target at this market in advance and enter into it as early as possible, it will help them obtain market opportunities.

#### **4.1.5 A closed loop of abroad study service**

Since after service of abroad education is also an important direction for industry development, agencies capable of forming a complete closed loop will be more competitive in acquiring customers. Currently, quite a number of service agencies have already provided relevant services targeted at "post-application" market. However, this market is still in the stage of development with no leading enterprises yet. It is expected that with the tendency towards abroad education at younger age, the market demand for after service of abroad education will continue to grow, which may provide new growth momentum for abroad study agencies.

#### **4.1.6 Destinations for abroad education is diversified**

Compared with destinations for abroad education and their proportion in previous years, the market size of mainstream countries for abroad education (U.S., Britain and Australia) basically remains stable, while the number of emerging countries for abroad education shows upward trend. Diversified destinations for abroad education not only enable students to have more options, but also provide multiple possibilities for products and services of abroad study service agencies. By this token, abroad study service agencies may formulate differentiated products and services in order to have their fair share in market segments by digging into the emerging non-mainstream destinations for abroad education and identifying demands of abroad students at different age groups.

### **4.2 Abroad study service agencies**

#### **4.2.1 Integrated development will be the general direction in the future**

Growing number of abroad students is the wind vane for the growth of market size of abroad study service agencies. As the growth of abroad students slows down, the market size of abroad study agencies has departed from growth in leaps and bounds.

Abroad study agencies and testing institutions, as major components of traditional abroad study service agencies, provide services concerning abroad education consulting and test training to abroad students. With changes in behavior characteristics of abroad students and emergence of new technologies such as Internet, the threshold of information asymmetry in abroad education market has been lowered down, thus bringing huge disruptions and challenges to traditional mode of abroad study service agencies. With the existing mode failing to meet the need brought about by rapid market changes, the industry is faced with a turning point, making it imperative for abroad study agencies to transform.

Under the new mode, abroad study agencies will develop in a more diversified way by expanding its business scope towards integrated service with a closed loop covering the early, middle and latter period of abroad education. While pursuing new profit point and modes, abroad study agencies will apply technologies concerning Internet and Big Data to provide more precise and sophisticated services, thereby improving operation efficiency and saving cost.

#### **4.2.2 Online abroad education**

Traditionally, agency fees and school commissions constitute core benefits and business model of abroad study agencies. However, affected by increasingly transparent and flattening information, various innovative business models are disrupting the entire market. From the offline perspective, offline physical agencies will show downward trend because they are more costly in operation, human resources and management than online agencies and information channels through which abroad students gain information have also changed. However, online abroad study services will gradually become the core carrier of abroad education consulting and the major direction of future industry development. Currently, major models of online abroad study services include portal O2O model, platform model, supply chain model, DIY model and free model, each with their typical customer bases and profit models. Please read the full version of this report for detailed analysis.

#### **4.2.3 Integration of Internet and Big Data will improve customer experience**

In many fields other than abroad education, industries which rely on information asymmetry for excess profits have been revolutionized by Internet, with abroad education study agencies being the next target for revolution. It is expected that the next round of competition within abroad study service industry will be manifested in the integration of Internet and Big Data which complement with each other. Therefore, abroad study agencies should take good advantage of the complementary relationship between Internet and Big Data, and actively make strategic and industry layout. Specifically, they may rely on Internet platform for support, and graft the capabilities of Big Data on this basis. In this way, they will be able to improve operation efficiency and customer experience, capture market share, further promote revenue, adapt to future development trend and avoid being swept away by the wave of science and technology.

#### **4.2.4 Hot spots for investment in abroad education**

Investment in abroad education industry in 2014 has shown the trend of lateral expansion with Internet at the core. As we look ahead into the future development of investment and M&A within abroad education industry, it is expected that fields of investment will move towards three aspects including Internet, industrial expansion, and specialized platform segments driven by constant market segmentation and new technologies. For major agencies, it is necessary to focus on the expansion of current product lines and range of services by developing towards "big abroad education" industry and fostering capabilities to provide one-stop services, and these major agencies may well afford investment and M&A in this regard. For small and medium sized agencies, it is necessary to make their service sophisticated and precise by aiming at target customers and fostering user stickiness so as to establish good reputation which would help increase their voice and influence within the industry and further become the target for investment and acquisition by major agencies in the future.

For detailed analysis on hot spots for investment in abroad education, please read the full version of this report.

## 4.3 Educational institutions

### 4.3.1 Tightening policies force international classes to face transition

In recent years, international classes established by domestic high schools have shown the momentum of rapid growth and extended from first-tier cities to second and third-tier cities. There is a market demand for international classes because the key factors attracting schools and parents consist in the fact that international classes are connected with internationalized teaching philosophy and help pave the road for studying abroad. According to statistics from the Ministry of Education, by the end of 2013, the number of schools which have opened international courses has increased from 22 twelve years ago to 338, and more than 20 international courses have been opened to Chinese students. International courses provided by high schools not only enrich high school education system, but also facilitate the diversification of high school education system and ways of running school. Meanwhile, since international classes will introduce advanced foreign teaching philosophy, they would help further promote domestic educational reform.

The government has imposed increasingly strict regulation on the market of international classes. In 2014, the Ministry of Education has released *Interim Administrative Measures for International Programs in High School*. As a result, municipal governments in various cities like Beijing have announced to halt the approval of high school international classes, while Shanghai municipal government, apart from halting approval, has transferred some government-funded international classes that are run in a nonstandard way to private schools. It has already become an irreversible trend to enhance the standardized management of high school international classes.

Under the backdrop of huge market demand and gradually tightening policies, international classes of various high schools will be faced with transition. Some high school international classes, on the basis of gradual standardization, will achieve the transition towards the mode of Chinese-foreign cooperation in running schools. Some, however, will gradually transform the orientation of running schools and make relevant adjustment in fees. From the perspective of the entire abroad education industry, the role of international classes to shunt abroad students has been refrained by relevant policies while the approval of international classes has also been halted. Under this context, unless the existing enrolment is enlarged, the competition would become even fiercer with the robust market demand for international education. Therefore, more students may choose to study abroad in advance to prepare for future education. This will bring benefits to abroad study service agencies, especially those focus on services and demands of abroad students at younger age.

### 4.3.2 Schools run by independent legal entities are highly favoured

After more than a decade of development, Chinese-foreign cooperation in running schools has, to some extent, promoted the innovation of education and schooling while satisfying the demand of students for diversified education. Chinese-foreign cooperation in running schools falls into two categories according to the mode of running school. The first mode is running schools by independent legal entities or cooperative agencies, and the second mode is running schools by Chinese-foreign cooperative programs. Currently, majority of Chinese-foreign cooperation in running schools adopts the second mode, capturing more than 90% of the total. Schools run

by independent legal entities tend to be in short supply currently, with actual annual enrolment exceeding original plans and a low admission rate. As we look ahead into the future development and opportunities of Chinese-foreign cooperation in running schools, it may be seen that schools run by independent legal entities will be a good mode of running schools. Compared with Chinese-foreign cooperative education programs and institutions, schools run by independent entities are advantaged in specialized campus, excellent hardware devices, and de-administration of management system which has endowed these schools with the gene of "academic freedom" in real sense. In addition, high quality international faculty has also ensured that the teaching standards of schools run by independent legal entities will be equivalent to that of overseas high schools. Under the backdrop of increasing popularity of Chinese-foreign cooperative schools in China, it is likely that a growing number of Chinese-foreign cooperative schools will emerge in Chinese mainland.

# Conclusion

After several years of development, China's private education industry has gradually evolved from a single industry to an industry with multiple industry segments. With the steady advance of system building and the boom of education industry, more and more capital has been invested in education industry while the government has continuously accelerated its legal reform of this industry. Favorable policies have also facilitated the healthier and more ordered development of the industry while attracting more commercial agencies to cross industry boundary and enter into it.

Under the backdrop of the booming education industry, it has become a problem facing every education practitioners as to how to utilize emerging technologies and capital in order to further optimize education, make education more equitable, and promote industry scale.

This year Deloitte has released the sixth annual report on development of Chinese private education, and it is great honor to witness and share the rapid growth of China's education industry. Gratitude also goes to inside experts and practitioners for their support to Deloitte. Please correct if there is any mistake in this report.

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# Contacts

**Po Hou**

Managing Partner  
Technology, Media and  
Telecommunications  
Tel : +86 21 2316 659  
Email : pohou@deloitte.com.cn

**William Chou**

Consulting Partner  
Education Industry  
Tel : +86 10 8520 7102  
Email : wilchou@deloitte.com.cn

**Charlotte Lu**

Managing Partner  
Education Industry  
Tel : +86 21 6141 1801  
Email : chalu@deloitte.com.cn

**Sitao Xu**

Partner  
Deloitte China Chief Economist  
Tel : +86 10 8512 5601  
Email : sxu@deloitte.com.cn

**Annie Yu**

Industry Manager  
Technology, Media and  
Telecommunications  
Tel : +86 21 2316 6592  
Email : anniyu@deloitte.com.cn

# Research Support

**Lydia Chen**

Director  
Deloitte Research Center  
Tel : +86 21 6141 2778  
Email : lydchen@deloitte.com.cn

**Jack Chen**

Associate Director  
Deloitte Research Center  
Tel : +86 21 6141 1640  
Email : jacktichen@deloitte.com.cn

**Iris Li**

Manager  
Deloitte Research Center  
Tel : +86 10 8520 7038  
Email : irili@deloitte.com.cn

**Roger Chung**

Industry Research Manager  
Technology, Media and  
Telecommunications  
Tel : +86 21 2316 6657  
Email : rochung@deloitte.com.cn



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