Online education and edtech opportunities in China
A FOCUS ON THE K-12 SECTOR
September 2017
Based on Chinese education megatrends to meet demand for flexible and innovative learning, and in line with the Australian International Education 2025 (AIE2025) Roadmap goal to embrace borderless learning opportunities, Austrade commissioned Grok Global Services to prepare this China market report on online education (including edtech) in the K-12 sector. This report aims to provide an in-depth understanding of the K-12 online education landscape in China and to provide insight and advice to Australian practitioners intending to enter this market.
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>1</td>
</tr>
<tr>
<td>Market overview: K-12 education in China</td>
<td>2</td>
</tr>
<tr>
<td>Scale of China’s online K-12 education market</td>
<td>3</td>
</tr>
<tr>
<td>Current competitive landscape</td>
<td>4</td>
</tr>
<tr>
<td>A brief history of China’s online K-12 education market</td>
<td>4</td>
</tr>
<tr>
<td>Online K-12 education products and services in China</td>
<td>6</td>
</tr>
<tr>
<td>Main features of online K-12 education products and services</td>
<td>9</td>
</tr>
<tr>
<td>Trends in summary</td>
<td>9</td>
</tr>
<tr>
<td>Case studies of major international players</td>
<td>10</td>
</tr>
<tr>
<td>Regulatory environment in China</td>
<td>14</td>
</tr>
<tr>
<td>Brief overview of relevant regulatory bodies</td>
<td>14</td>
</tr>
<tr>
<td>Sino-Foreign partnerships in K-12 education</td>
<td>14</td>
</tr>
<tr>
<td>Foreign investments in the Chinese online education sector</td>
<td>15</td>
</tr>
<tr>
<td>Internet censorship</td>
<td>16</td>
</tr>
<tr>
<td>Indication of future trends related to regulations</td>
<td>16</td>
</tr>
<tr>
<td>Market entry advice</td>
<td>17</td>
</tr>
<tr>
<td>Market entry considerations</td>
<td>17</td>
</tr>
<tr>
<td>Targeting and prioritisation for market entry</td>
<td>17</td>
</tr>
<tr>
<td>Target demographics and products</td>
<td>17</td>
</tr>
<tr>
<td>Target regions - Tier 1 and 2 cities vs. lower-tier locations</td>
<td>18</td>
</tr>
<tr>
<td>Market entry strategies and distribution channels</td>
<td>19</td>
</tr>
<tr>
<td>In-market partnership</td>
<td>21</td>
</tr>
<tr>
<td>Public vs private procurement</td>
<td>21</td>
</tr>
<tr>
<td>Due diligence for business partner development in China</td>
<td>22</td>
</tr>
<tr>
<td>Recommended marketing channels for product promotion and distribution</td>
<td>23</td>
</tr>
<tr>
<td>Conclusion</td>
<td>24</td>
</tr>
<tr>
<td>Endnotes</td>
<td>25</td>
</tr>
</tbody>
</table>
Executive summary

Online education has become a burgeoning industry in China, in part due to excitement over Massive Open Online Course (MOOC) platforms like Coursera and edX. iResearch Group – forecasts that the online education market in China will be valued at almost $51 billion AUD by 2019. The K-12 sector currently accounts for one third of the online education market – a share that is forecast to expand to over 41% by the end of 2019.

The term “K-12 in China” in this report is a broader term, officially defined as “basic education”, referring to all pre-college education, which include a combination of preschool (age 1 to 6), primary school (age 6 to 12), and middle and high school (age 12 to 18) education. In China, compulsory school education starts from primary school at age 6.

While online education in K-12 has more than two decades of history in China, since 2010 the sector has grown rapidly with an increasing number of education start-up companies, active investment from venture capitalists, as well as the quick adoption of cutting edge technologies. Offerings have diversified, now ranging from test-prep tutorials, language learning, MOOC platforms, STEM education, and soft skills to international curriculum provision.

It is understandable that foreign online education providers and edtech companies are targeting the China market. However, international companies might have some difficulty in this dynamic but competitive market, in terms of identifying their niche market, designing their offerings to meet local expectations, competing with local companies, China-based partnership development, and operating in compliance with relevant Chinese regulations.

This report provides an overview of the sector, its historical development and introduces both mainstream and emerging offerings in the market. Through case studies of five international online education providers including Sony Global Education from Japan and Eton College from the UK, this report explores the market entry strategies and business approaches that have led to their success in China. The report also introduces China’s regulatory environment and addresses some critical factors that Australian companies need to consider. Advice is also provided on potential market entry opportunities, common market entry strategies and business models in China, in-market partnership development, due diligence steps and marketing channels.

This report has been prepared based on primary and secondary sources of information, including the latest industry news, market reports, major and emerging players, relevant regulations, as well as data collection and analysis.

In this report, edtech is included as a segment of online education.
Market overview: K-12 education in China

China has one of the world’s largest K-12 education systems, with over 250 million registered students across public and private schools. In 2016, almost 84% of K-12 students in China were enrolled in public schools. Private K-12 education has developed quickly in recent years, with a higher enrolment growth rate higher than in the public system.

China’s K-12 education is widely known as an exam-oriented system. Students’ (and their parents’) determination to perform well on standardised tests has driven the growth of a vibrant after-school tutorial market that exceeded $151 billion AUD in 2016.

While well entrenched, this paradigm is changing as China seeks to accelerate economic growth. Education policymakers are aware of the limitations of an exam-oriented education model in fostering innovation and a future ready workforce. China has recently announced major reforms to move away from an exam-orientated system, such as:

- major reforms to the National College Entrance Exam (also known as the Gaokao), to evaluate students based on a broad range of academic subjects, as well as their personal development and social skills
- a government proposal for reforming K-12 classroom pedagogy – to push for problem-solving, project-based learning, and variable curriculum for Years 10-12, and gamified learning for preschool children, as stated in the 13th Five Year Plan on Education
- reform of national curriculum standards which, for the first time, officially introduces STEAM education to the Chinese primary school curriculum (effective from September 2017).

China’s One Child Policy has, since 2013, been relaxed, and in 2016, China lifted the ban on a second child. In 2016, China’s population grew by almost 8% and over 1.3 million more babies were born than in 2015. More students will soon be entering the K-12 sector. This new generation of parents will have purchasing power, as well as a greater appreciation of global education and cutting-edge technologies, representing a new and substantial era of growth in the K-12 segments.

---

a All monetary figures are in Australian dollars unless otherwise stated. For conversion rates, we used OANDA exchange rates as of 19 July 2017 (1 CNY = 0.18898 AUD, 1 USD = 1.27996 AUD, 1 GBP = 1.67325 AUD).

b STEAM denotes academic fields including Science, Technology, Engineering, Arts and Mathematics. It is an education initiative to break the traditional boundary between the arts and sciences by adding Arts to the original STEM education framework, in order to foster holistic talents. Compared to traditional STEM education, the STEAM framework emphasises critical and creative thinking, through approaches such as modelling, presentation, engaging in critique, assessment and evaluation.
Scale of China’s online K-12 education market

Due to growing access to the internet and internet-enabled smartphones, China’s online education market has grown rapidly. According to the China Internet Network Information Centre (CNNIC), in 2016 there were a total of 731 million internet users in China, over 95% of which were active mobile internet users. With more than 100 million Chinese consumers of online education, iResearch estimates the 2016 market size at nearly $29.5 billion, and forecasts growth to $50.9 billion by 2019. iResearch further reports that the online education segment for primary and middle school (Years 1 to 12) alone accounts for 29% of the overall online education market and is forecasted to grow to approximately 40% by the end of 2019. The preschool segment – a small niche – is forecast to steadily grow from 0.8% in 2014 to 1.2% by 2019.

Indeed, recent developments in the industry in China substantiate the market opportunity:

- There has been a recent influx of online education start-ups specialising in preschool and K-12 education.
- Traditional bricks-and-mortar education giants are moving toward online models for after-school tutorials for K-12 students.
- There is active cross-sector investment in the online preschool and K-12 education market.
- There are new government-led Chinese MOOC platforms for K-12 schools and students.

Online education has some interesting drivers – air pollution, for instance, is a unique but important one. Many Chinese cities have a significant pollution problem, especially during winter seasons, and online instruction in many K-12 schools has spiked as a result. Beyond that, online education helps schools and students overcome inconvenience caused by geographic distance, extreme weather, or other disruptive influences. Online education also offers the opportunity to enhance an educational experience with dynamic access to a broad range of fun, personalised and innovative educational resources.

The Chinese Government’s plans to foster development of digital education in the K-12 education system are supported in a series of initiatives outlined in the Ten-Year Development Plan for Education Informatisation (2011–2020). These include:

- ensuring equal internet connectivity and ICT infrastructure for K-12 schools in all regions
- producing quality digital education resources for all K-12 schools and students
- promoting the integration of ICT and digital technology into everyday education
- developing the ICT literacy and digital learning capability of all K-12 students.
Current competitive landscape

A brief history of China’s online K-12 education market

Since the 1950s, China has had a long history of distance education using letter correspondence, radio, television and satellite through to the internet. The use of the internet for K-12 education began in the mid- to late-1990s, when some of the country’s renowned universities and public schools started to develop websites to share their teaching expertise, materials and resources to support schools and students from underdeveloped areas (these were later known as the “traditional online schools”). While some of these early websites still survive today, most of the institutions who produced these have become privatised or have collaborated with domestic education companies.

During the “dotcom bubble” in the early 2000s in the West, China also experienced its own “internet revolution”, with a dramatic growth of private capital and internet-based entrepreneurship. Online education advanced quietly during this period. Some national chains of bricks-and-mortar after-school tutoring centres began to realise the potential of the internet to reach and connect a wider market, and gradually started developing their own online education brands and units, like New Oriental, Xue’ersi (now renamed as TAL) and Xueda Education. During this period, some multinational companies also began entering the market. Most of them have backgrounds in textbook publishing and teaching English to speakers of other languages (TESOL), for instance McGraw-Hill and Pearson Education.

By 2010, more education start-ups and venture capitalists emerged to participate in China’s increasingly active online K-12 education sector. Provision of online test-prep tutorials and English language learning solutions were the most common points of entry due to sustained demand from students and parents. These two segments have also grown to dominate China’s online K-12 education market today.

The last three to five years have seen growth in China’s online K-12 education industry. 2014 is acknowledged as “the Year of Genesis” for online education in China. After years of preparation and capital accumulation, online education – especially the K-12 sector – has come under the spotlight with significant investment flowing into the market, often from non-education sectors such as real estate, telecommunications, and information technology.

Meanwhile, as the market continues to evolve, entrepreneurs as well as market leaders and investors are turning to explore untapped niches beyond test-prep and English tutorials, with attempts at online STEAM workshops, educational games, or the adoption of cutting-edge digital technologies such as VR (virtual reality), AR (augmented reality) and AI (artiﬁcial intelligence) for educational purposes. While domestic companies continue to dominate the market, more international companies and institutions have entered the market – for instance K-12 International Academy from the US. Some international players from the earlier period, such as Pearson aforementioned, also responded by adjusting their focus in China from provision of language-only education to a more diverse range of online academic offerings.

Chinese internet giants Baidu, Alibaba and Tencent have founded their own online education business lines, whilst actively teaming up or investing in various start-ups and major market players (e.g. Tencent’s $60 million pre-IPO investment in New Oriental Online). Likewise, state-owned telecommunication giants China Mobile and China Telecom have entered the market with a particular focus on K-12 student smartphone and mobile internet users.

This period also sees the emergence of government-led, not-for-profit MOOC platforms for online K-12 education as a part of the government’s larger initiative for equal access to education resources. The most notable project is the Beijing Digital School. Edtech companies, previously in the school information systems sector, have pivoted to become cloud-based online K-12 education platform providers – with established relationships and resources, these vendors have quickly expanded to claim huge shares in the online K-12 edtech segment.
China Market Report on Online Education and Edtech Opportunities in the K-12 Sector

1990s – Traditional internet schools

2000s – Traditional tutoring companies turn to online

2010s – Rapid expansion involving startups and Chinese Edtech companies

Post 2014 – Explosive growth stage with investments from both global and cross-sector sources

Major players (click logo to open website)
Online K-12 education products and services in China

Online K-12 education in China has become a vibrant and rapidly evolving industry. Domestic as well as international players in this field are constantly adapting their products and market strategies to meet the ever-growing and fast-changing appetites of local consumers. Thus the market has developed a number of interrelated and sometimes overlapping segments as illustrated below.

Test-prep and academic tutoring

Deeply rooted in China’s enduring exam-oriented culture, this is the largest segment with various offerings around exam/learning resources, and tutorial services for classroom academic subjects.

A recent survey by the Chinese Society of Education reports that over 80% of Chinese parents still consider after-school tutorials an essential part of K-12 education for their children. For this reason, test-prep and academic tutoring is by far the most established segment in China’s online K-12 market, representing the majority of the market share. (Given its size and long history, some research inappropriately equates this segment with the entire online K-12 market.)

Since the mandate of this segment is to improve test scores and everyday classroom performance, a key feature is close alignment with the Chinese curriculum. Major participants in this section include:

- Xueersi.com, an extra-curriculum tutorial and test-skill training platform by the online K-12 education giant TAL Education Group. Mathematics, English, Chinese, Physics, Chemistry, Biology are among the main subjects offered.
- There are also thriving online start-ups such as YuanFudao (literally “Ape Tutorial”) – an exam database and online tutorial company, which has risen to unicorn status after receiving $153.6 million in investments.
- Other key players include popular tutorial and homework management apps like Master Learner and 17 Zuoye (literally “do homework together”) – both having secured $128 million worth of Series C or D round investments. 17 Zuoye’s main offering is a desktop- and mobile-friendly platform to facilitate the chain of homework design, assignments, assessment and management for teacher, students and parents.
- Also included here are e-commerce platforms for online tutorial courses, such as Taobao Education (previous called Taobao Tongxue, literally “taobao classmates”) by Alibaba Group, which is a virtual marketplace to enable the delivery of online education courses (through digital recording or live-streaming).

MOOCs for K-12

A specialised category of K-12 resources and tutorial services that conform to the local curriculum and qualification framework.

Inspired by the popularity of MOOCs for adult learners, Chinese education authorities and local governments have actively engaged in the development of MOOCs for K-12 in recent years, in part to facilitate the equal distribution of quality education to all schools and students. For now, MOOCs in the K-12 sector are led by regional governments, e.g. the Beijing Digital School by the Beijing Education Commission, the Shanghai-based C20 MOOCs Association led by East China Normal University, and the national platform AiXuetang.com by the Department of Basic Education of MOE Research Centre for Online Education and Tsinghua University.

Schools and students can use the platform in various ways, depending on the facilities and human resources available to them. For example, during heavy pollution days in Beijing, students can study at home using the education resources from the Beijing Digital School.
English language learning

With an emphasis on improving language competence and cultural understanding, differing from traditional test-prep/academic tutorials for learning English.

English language learning is another well-established segment and has incubated some of China’s largest and most influential education companies – notably the New Oriental Group, the Chinese and US-listed private education conglomerate. Different from the traditional tutoring for in-school English and English language tests, there is a national passion to develop English language competence in speaking, communication, and cultural understanding. Other companies in this segment include the iTutorGroup (home company for VIPABC) and 51talk (literally means “I want to talk”). The latter recently initiated IPO on the US stock market and claims to be the “world’s largest English learning company”.

Many international providers from English-speaking countries – notably the US, the UK, Australia and Canada – have been attracted to this segment. In 2012, McGraw-Hill Education formed a joint venture with the New Oriental Group to offer a blended-learning, after-school college-prep and English tutoring program with the aim of serving over 500,000 Chinese students. Increasingly in recent years, other international start-ups in second language tutorials have also come to realise the potential of the Chinese market and have begun to introduce their products for Chinese users, notably Duolingo which was launched on Apple Store China in 2014.

A recent trend is the combination of international academic courses with English language learning. Its key selling point is that students can learn academic subjects in English through a classroom-style academic setting. For example, VIPKID, a trending one-on-one online English language training company primarily targeting elementary school students in China, delivers English-medium curriculum courses based on the US Common Core State Standards. “Taking North American primary school courses at home” has been its key branding message in China.

Future-ready skillset development

Designed to build the skills and knowledge necessary to compete in a global, future workforce, including information, media and technology skills, learning and innovation skills (e.g. communication, critical thinking, creativity), and life and career skills (e.g. leadership, interpersonal skills).

Compared to English learning and traditional test-prep tutorials, future-ready skillset development is a relatively new segment. Popular niche areas include robotics, coding, digital fabrication, leadership and interpersonal communication, career readiness preparation, creative and critical thinking, and problem-solving skills.

The STEM learning industry in China is estimated to be worth $19 billion as Chinese parents are investing significantly in STEM education for their children. Chinese schools and governments – especially in affluent regions – are also investing heavily in the development of advanced tech and science labs. Domestic start-ups, large local companies and international corporations are all fiercely competing to serve this new, burgeoning market. Examples include Codemao, a Chinese online K-12 graphic coding education start-up; YouthMBA, an entrepreneurial, cross-curricular “online experiential learning for core capability building” program; the Mobby Think Lab, offered by the Chinese K-12 giant TAL Education Group; and other international providers such as Pearson’s STEM Ed Programme.

Edtech tools and services

To apply innovative technologies to online education to improve the effectiveness and efficiency of teaching and learning.

The market for edtech tools and services in China is growing in parallel with the overall online education market. Current offerings are mostly in a few popular areas – data-based adaptive learning solutions and cloud-based education solutions. 17 Zuoye and the app-based Shensuanzi Education provide adaptive learning technology for schools, parents and students. Talkweb Education and Weidong Cloud are major players in cloud-based school education.
platform development, offering a full range of edtech services such as digital campus management systems, online marking systems, and education assessment tools. In 2015, Talkweb Education acquired SeaSkyLand – a technology company specialised in online exam marking and assessment.

While both adaptive learning and cloud education have gained government-level recognition and policy support, edtech developers and investors in the market have started to explore and speculate on newer, untapped opportunities like the adoption of AI technology in online education, for instance Liulishuo (literally “speak fluent English”), which is branded as the pioneer in applying AI to English language learning. Other potential crossovers between education and technology include the application of VR and other wearable devices in online and digital K-12 education.

Preschool education

A unique market segment that requires pedagogies and teaching materials particularly for preschool children.

The preschool education segment, while small, represents a unique student population and has experienced unprecedented expansion with various new entrants. Unlike in Australia, Chinese kindergarten education (from ages 3 to 6) is part of preschool education. For this age group, online early childhood learning products are mainly educational games in music, numbers, English, logical reasoning, story-telling etc. Online community and knowledge-sharing platforms for parents used to be popular in this segment, such as the Babytree Community – an online community since 2007 for parents from pregnancy to preschool education. Babytree received $567 million investment last year to kick off IPO.

New models are also emerging, including online preschool education content, such as the joint venture between Pearl River Piano and the Taiwan-based online education provider Ainuo Education for online preschool arts education; PR Piano Arts Studio in China; cloud platform services for parent-kindergarten interaction e.g. the country’s largest preschool-focused cloud platform provider BBTree; and Online-to-Offline (O2O)-style preschool education organisations like Pop Kids Education by the New Oriental Group and the aforementioned Mobby Think Lab by TAL.

International curriculum programs

Credit-bearing international curriculum programs delivered online.

Lastly, there is small-scale but long-lasting development of online international curriculum programs for years 10 to 12 that are credit bearing or even grant a foreign high school diploma. China’s appetite for international curriculum is strong, especially for high school students who see it as a necessary preparation for further study in universities and colleges abroad. Although online delivery of credit-bearing international curriculum programs in China remains an interesting area for international engagement, unclear regulatory policies present challenges and risks for online education providers. Most of these programs are operating in a grey area.
Main features of online K-12 education products and services

There are six key features that are shaping the outlook of potential products and services in China’s online K-12 education market.

- **Utilisation of fragmented time** – Students today are looking for products and services that could help them utilise their time away from school without having to commit a large and continuous amount of time to a single learning session. Hence online education products are designed to enable users to, for example, complete a small but comprehensive group of educational quizzes during an after-school bus ride back home. Some major mobile quiz and tutorial applications such as Master Learner, Baidu Zuoyebang and Yuanfudao even allow students to take photos of a question, upload, find answers or receive relevant one-on-one tutoring.

- **Gamification** is an important feature of online education products to effectively engage students and spark their interest in learning. They transform the teaching, tutorial and learning process into a series of educational games so that students learn through fun.

- **Creation of an immersive learning environment** – a stimulating and immersive learning environment can enhance understanding. For example, Qushangke, a Beijing-based edtech start-up, proposes to use VR technology in Year 7-12 classrooms to teach geography, biology and chemistry. Meanwhile, US Talk, an app-based English language learning program developed by 17 Zuoye, has tailored its English courses to various study abroad related scenarios, such as an overseas supermarket.

- **Sociability** – traditionally, there is a common concern in China over the effectiveness and viability of online learning, due to the lack of interaction between learners and lecturers. However, the latest online education products have incorporated social features by allowing students to interact with their peers, instructors and parents, or even with a humanised platform by applying AI technology.

- **Mobile and blended learning** – Virtually ubiquitous smartphone and mobile internet use enables more convenient access to learning whenever and wherever. Many online K-12 education providers have developed both desktop and mobile apps. There are also trends to combine the benefits of online and offline learning. For example, some online tutorial providers are experimenting with the “dual classroom” in collaboration with local schools or traditional offline tutorial centres. In the “dual classroom” model, students take online courses followed by face-to-face tutoring sessions with appointed local tutors.

- **Personalisation** – some online education products are able to adjust the instruction and evaluation processes according to the learning habits and outcomes of individual students.

**Trends in summary**

China’s online K-12 education industry is rapidly innovating and modernising. Consumer preferences are diversifying and the market has become increasingly segmented. Exam-oriented learning still represents the mainstream, and for the foreseeable future, after-school test-preparation and academic tutoring is very likely to remain a dominant segment. In this area, domestic providers enjoy clear and overwhelming advantages.

However, there are clearly gaps in the market for Australian participants. While domestic providers’ products and services serve more as the extension of the everyday classrooms, the market has different expectations for international providers, with the hope that an investment in international online K-12 education will incorporate a broadened global vision and state-of-the-art education and technological experience. Given the different expected roles for domestic and international providers in the China market, it is more likely that the two parties can become potential strategic partners rather than direct competitors (a trend that we see demonstrated in the following case studies).
Case studies of major international players

This section presents case studies of five international companies that have entered the China market, with analysis of their identified market niches and strategies. They are:

- **Knewton** – US-based edtech company that has become well-known in China through strategic partnerships with Chinese online K-12 education companies in edtech research and development
- **EF** – an international English language learning giant that has successfully penetrated China’s strictly-controlled public K-12 education system for teacher training, through dedicated government relationship development
- **OESIS** – a US-based independent school alliance for online education that has managed to deliver international high school diploma programs online
- **SONY Global Education** – a start-up project in STEM education that has successfully identified and engaged with its target market in China
- **EtonX** – newly set-up department of digital education that has been successful in promoting leadership education programs in international schools in China.

**Case study 1: Knewton and 17 Zuoye, TAL Education Group – Strategic partnerships in edtech innovation**

Founded in 2008, New York-based Knewton specialises in adaptive learning technology. Knewton has developed a platform for personalised education content, and provides students with tailored recommendations, teachers with detailed student performance analytics and education publishers with content insights for more effective digital education products.

In 2015, Knewton announced a strategic partnership with 17 Zuoye – a Chinese online K-12 homework management platform that provides textbook exercises and student data analytics for Chinese teachers and schools. 17 Zuoye claims to have over 40 million users from across 910,000 Chinese schools in 31 Chinese provinces and municipals; and has established a partnership with Knewton to sharpen its technological edge in customised, predictive education data analytics.

In 2016, TAL Education Group also announced a strategic investment in Knewton. By incorporating Knewton’s adaptive platform in TAL’s online learning system, TAL will be able to develop online program materials customised to individual learner profiles on its own online education platform.

**Case study 2: Education First (EF) China – Engaging the public K-12 education sector through professional training for teachers**

EF, the Swedish international English language learning provider, entered the China market in 2002 by opening brick-and-mortar English tutorial centres for Chinese students and adult English learners. Professional training in English language proficiency has been an important business segment for EF in China, and it has successfully worked with clients such as multinational companies in China as well as major municipal governments.

Throughout the last 15 years of engagement in China, EF has been consciously investing in the cultivation and maintenance of government relationships – for instance sponsoring English education services to Beijing and Guangzhou government officials during the 2008 Olympics and 2010 Asian Games.

However, the market performance of its online English learning unit has not been as impressive in the K-12 segment\(^2\). EF faces fierce competition from domestic players with backgrounds either in traditional test-prep tutorial (e.g. the New Oriental Group and TAL) or in its more recent and entrepreneurial derivation of English language competence building targeted at school children (e.g. 51 Talks and VIPKID).

Most of these direct competitors for EF in the student consumer market, however, have a major focus on the B2C channel. One of the main reasons behind such concentration, is the known
difficulty for private companies to penetrate and get engaged with public K-12 schools and education authorities. Despite the huge potential market represented by student enrolments in state education, the system itself is strictly controlled with opaque procurement process and decision-making. In this respect, EF nonetheless stood out as a notable exemplar through its investment in government relationship building and provision of professional training to address key human resource development demands of the public sector.

Given the complex socio-economic landscapes across China’s vast geographic territory, quality teachers and education resources have been concentrated in developed areas in the southern and eastern parts of the country. Meanwhile, schools in the inland areas have suffered from a lack of qualified teachers. In this light, EF has stepped in to engage in a strategic partnership with the Education Bureau of northwestern Gansu province, to provide professional English and TESOL training to over 1,000 rural English teachers from central and western China through the charity body EF Global Classroom Foundation. The training scheme is a combination of both online and offline training, involving the use of digital and human resources from EF China and teachers from the EF language learning centres in Beijing. While the engagement is essentially an act of charity, the cooperation has served as positive, effective PR branding for EF in China, enhancing its track record with the market and the Chinese Government.

Case study 3: Online Education Symposium for Independent Schools (OESIS) and CERNET Education – Delivering an online international curriculum program in China

The US Online Education Symposium for Independent Schools is a network of over 550 independent schools and over 2,500 leading innovators in K-12 education worldwide. The key focus of the OESIS is the delivery of online and blended education for K-12 students. The OESIS’s main global offerings are OESIS-XP – a fixed-price online education platform for the professional development of teachers from member independent schools – and the anchor conferences in Boston, Los Angeles and China.

Beyond these existing products, the latest development by the OESIS is the OESIS-X, an online education platform also branded as “Global School-to-School Diploma Credit Online Course Network”. The platform was launched in 2016, targeting specifically the China market for students from Year 10 to 12. China’s CERNET Education is the key business partner for the establishment of the program. Chinese students study credit-bearing US high school diploma courses from elite US independent schools, without having to leave China; and the courses on the OESIS-X platform are adapted to online and ESL levels for international students. Delivered under a “School-to-School” framework, the OESIS-X courses are taught in-school through Chinese school partners, utilising a cloud education platform developed by CERNET. Weekly coursework comprises 4-5 hours of learning, 1 hour of online live instruction and 75 mins of online office hour with the US teachers. In addition, once a year the OESIS will also provide on-the-ground training for Chinese teaching assistants or teachers for partner schools in China, as well as meet the students in China. The OESIS-X online course tuition is priced at around $3,072 per academic year, to be collected either by the Chinese partner, the US school or paid online through an international credit card transaction. Many private international schools in China have joined the OESIS membership network, attended its annual conference or even began to pilot the OESIS-X program, especially schools already in partnership with CERNET Education.

About CERNET Education

CERNET – short for the “China Education and Research Network”, is the first and largest national internet and computer network for education and research. The CERNET Project is funded by the Chinese Government and directly managed by the MOE.

Emerging from the CERNET Project, CERNET Corporation is the only direct corporate subsidiary of the Chinese MOE, and its clients include over 2,000 Chinese higher education institutions, reaching over 25 million end users.

CERNET Education – founded in 2006 and overseen directly by the MOE and Tsinghua University, CERNET Education is the biggest subsidiary of CERNET Corporation, and has been focusing on "internet plus international education" since inception.

The core business of CERNET Education includes: 1) provide ICT and edtech solutions to Chinese K-12 schools, 2) introduce international and digital education resources to K-12 schools, and 3) US-bound study abroad services for Chinese K-12 students and families.
Case study 4: Sony Global Education – STEM education

Sony Global Education (SGE) was founded in 2014, originally as one of the incubation projects by Sony Computer Science Laboratories, but was incorporated to become a wholly-owned subsidiary for education business by Sony Corporation in April 2015. SGE offers online STEM education services accessible from desktop, smartphone and tablet. With a mission to create “a new educational infrastructure for a connected society”, it has been active in promoting STEM education for the future, and is the founding member and partner of the Global STEM Alliance of the New York Academy of Sciences. The SGE has launched two major products and related global services:

- In 2015 – Global Math Challenge (GMC), a bi-annual global online math and logic contest for students worldwide with fun, engaging questions centring on problem-solving and developing math and logical thinking skills
- In 2017 – Sony KOOV, a connected robotic kit for robotics and coding education, which is an app that offers coding skill tutorials while children play with toy assembling.

Prior to 2014, Sony’s revenues had declined for several consecutive years and it had been actively seeking new revenue streams from various possible industry sectors. During the same period, STEM education in China grew into a multi-billion dollar market. Public schools alone are projected to spend over 10 billion CNY on STEM-related courses by 2020. An increasing number of online STEM education products are finding their way into the labs of Chinese schools and after-school clubs. China has become one of SGE’s first global markets (simultaneously in addition to US and Japan).

A key challenge for SGE initially in China, however, was the lack of recognition and necessary initial customer base, as Sony was still largely considered as a producer of electronic games and entertainment devices. What Sony has done, therefore, is to enter the market strategically through partnering with domestic companies that have similar services in STEM education and a considerable base of existing loyal student customers – notably the 17 Zuoye aforementioned, as well as Knowbox Science, each claiming more than a million student users. An official China representative office was also established to facilitate market promotion and distribution activities.

By the time Sony launched the KOOV kit in 2017, SGE had advanced strategies for K-12 school partnerships in China. The first Chinese school that Sony will be working with is the elite Beijing elementary school Shijia Primary School Dongzhimen (also an online education partner with YouthMBA, one of SGE’s recent Chinese partners for the GMC). To break into the public school market in China, Sony has deliberately tailored the KOOV kit to suit local teaching schedules. Realising that most Chinese schools do not have sufficient qualified teachers for robotic and coding education, SGE has also promised to undertake the majority of teaching and tutoring material development.

For Chinese home users, SGE has developed sophisticated pricing, distribution and marketing strategies to cater to different income levels and purchasing habits of Chinese families, namely:

- a tiered-pricing system so that KOOV can be purchased between $340 and $775, depending on product configurations
- distribution through both traditional venues (e.g. the brick-and-mortar Sony stores and major e-commerce platforms like Amazon and JD.com), and through Apple and Android app stores
- organisation of regular experiential sessions and trialling workshops at Sony China stores, such that KOOV is directly accessible to potential consumers in a more tangible, face-to-face setting.

Photo credit: Sony Global Education Website
Case study 5: EtonX - Modern leadership program

EtonX is a wholly-owned subsidiary of Eton Online Ventures, the commercial trading division of the English independent boys’ boarding school Eton College. Launched only in 2015, the EtonX project delivers courses based on Eton’s style of education. The first online course offered by EtonX is a Modern Leadership Programme, and China is the initial international market.

The Modern Leadership Programme focuses on teaching leadership, communication and collaboration skills to international K-12 students. To facilitate delivery from the UK to China while maintaining adequate quality control of the Eton brand, the Modern Leadership Programme adopts a blended-delivery model composed of:

- an interactive online learning platform with multimedia content developed by Eton
- one-on-one live online tuition per week delivered by UK-based, Eton-trained tutors (NOT existing Eton teachers)
- in-classroom collaborative group activities facilitated by teachers from the students’ own school (teaching materials and training for on-the-ground teachers is also provided by Eton).

The class size is limited to 20-25 students per course to ensure students get sufficient tutorial and supervision, and the tuition fee is estimated at around $1,171 per student. The program is intended to be delivered in tandem with the student’s existing Chinese studies: it is designed to fit into a typical Chinese school timetable, and delivered during normal Chinese school hours for student clubs and elective extra-curriculum activities.

“There’s absolutely plans to expand this to other territories and other courses. The reason we have started in China is that this particular course is particularly valuable for students who are going through the Chinese education system where the focus is on knowledge and rote learning. This leadership course supplements that very well."  

Simon Walsh, Former CEO of EtonX

Recognising that their target market is affluent families, whose children are likely to study abroad, the EtonX Modern Leadership Programme promises to issue a customised Letter of Recommendation for students when they apply to foreign universities, on top of the standard graduate certificate.

Within a year of market entry, EtonX has successfully established agreements with 12 Chinese international schools in tier 1 and tier 2 cities including Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Suzhou, Wuxi and Jining. The quick expansion can be attributed to several factors, including strong UK-Sino relations and partly Eton’s existing brand reputation for elite education.

But in practice, Eton has not taken its established fame in China and internationally for granted. The promotion of the EtonX project in China has relied heavily on dedicated in-country sales and marketing activities. Before EtonX was officially launched, the Head of Digital Education from Eton College travelled frequently to China to visit schools and education agents to give presentations and promote the leadership program. EtonX has actively attended education conferences in China to present its program to school headmasters, and launched marketing campaigns in major international and Chinese press such as China Youth, BBC, Sina and Sohu Education.

By confining its scope to extra-curricular training in interpersonal communication and leadership skills, moreover, the program was perceived as a modest, non-academic after-school offering, which does not interfere with the Chinese curriculum but which serves as a necessary supplement for students’ personal, individual development. This sensitive positioning of their offering protects the EtonX project from regulatory limitations that often constrain foreign private engagement in China’s K-12 education system.
Regulatory environment in China

Brief overview of relevant regulatory bodies

For foreign institutions or enterprises looking to deliver online education to China’s K-12 sector, regulations are an important factor to consider before market entry. Online K-12 education involves two of China’s more highly-regulated areas: internet and telecommunication services; and K-12 education (officially considered “basic education”). These two areas are administered separately by diverse government departments, with opaque criteria for approvals and cumbersome approval processes. So far, there is no law specifically regarding the delivery of online K-12 education in China. However, the major relevant regulatory bodies are:

Sino-Foreign partnerships in K-12 education

The Chinese MOE at both national and provincial levels is the primary administration and regulatory body for domestic education including Sino-Foreign collaborations in the education sector. Relevant applicable regulations on online Sino-Foreign education partnerships from the MOE include:

- *Regulation of the PRC on Chinese-Foreign Cooperation in Running School, 2003* (中华人民共和国中外合作办学条例)
  - Although this regulation doesn’t clarify whether online education by foreign education providers is within the regulatory scope, this regulation remains the fundamental law for Sino-Foreign education cooperation in China.

- *MOE Circular on Enhancing the Management of Educational Websites and Online Schools, 2000* (教育部关于加强对教育网站和网校行管理的公告, 教技[2000], 4 号), and *Interim Measures on Managing Educational Websites and Online Schools, 2000* (教育网站和网校暂行管理办法, 教技[2000], 5 号)
  - Most MOE regulations on online education were developed between 2000 and 2005, with a strong focus on the online delivery of higher education by domestic higher education institutions. The two MOE documents above are among the few regulations which directly address online K-12 education and relevant requirements for approval and administration; however, effective from 2016, the requirement for pre-establishment approval on educational websites and online schools has been officially removed by State Council\(^a\), as a result of recent public administration reform in China.

---

\(^a\) *State Council Decision on Removing the Second Group of 152 Centrally-Designated Items that Require Local Administrative Approvals for Implementation* (国务院关于第二批取消 152 项中央指定地方实施行政批事项的决定, 国发[2016]9 号)
Foreign investments in the Chinese online education sector

For foreign online education providers, service delivery in China might also involve establishing an operation in China to provide value-added telecommunication services using internet-based tools like websites. In this case, the foreign provider is obliged to the administration of State Administration for Industry and Commerce, Ministry of Commerce, and Ministry of Industry and Information Technology (MIIT).

The State Administration for Industry and Commerce oversees the registration and administration of foreign enterprises and Sino-Foreign joint ventures in China, with the following applicable laws for foreign companies.

- **Law of PRC on Foreign-Capital Enterprise** (中华人民共和国外资企业法)
- **Law of PRC on Chinese-Foreign Equity Joint Ventures** (中华人民共和国中外合资经营企业法)
- **Law of PRC on Chinese-Foreign Contractual Joint Venture** (中华人民共和国中外合作经营企业法)

The MIIT is a state agency under the State Council responsible for the administration of China’s industrial branches and information industry, with major responsibility in the regulation and development of the communication sector, construction of information system, and safeguarding of China’s information security. Under the **Regulation of the People’s Republic of China on Telecommunications** (中华人民共和国电信条例), all China-based websites are required to obtain a permit called an ICP (Internet Content Provider) license for legal registration and operation in China. Foreign online education providers who want to deliver web-based services in China must also obtain an ICP license during the pre-establishment period.

Two kinds of ICP licenses issued by MIIT:

- For commercial websites that offer goods or services to the public in China, they need to obtain an ICP license number, e.g. 京 ICP 证 12345678 号 (京 means Beijing).
- For non-commercial websites which only purely provide information and are not involved in direct sales, they need to obtain ICP filing number, like 京 ICP 备 123456789 号 (京 means Beijing).

In order to obtain an ICP license for commercial websites, a foreign-invested enterprise must be set up as a Sino-Foreign joint venture, in which the percentage of foreign capital cannot exceed 50%. In accordance to the Provisions on the Administrations of Foreign Investment in Telecommunication (外资投资电信企业规定管理) with exceptions in the Shanghai Pilot Free Trade Zone.

Foreign investment is highly encouraged by the Chinese Government for the continued opening up of the market. The Ministry of Commerce introduced the **Administration Measures for Foreign Investment in the Commercial Sector** (外商投资商业领域管理办法) in 2004, to allow foreign investment in China’s online retail business through a Foreign Investment Commercial Enterprise. However, education remains an area of greater restrictions for foreign investment. In the 2017 edition of the **Catalogue of Industries for the Guidance of Foreign Investment** (外商投资产业指导目录) by the Ministry of Commerce, only non-degree vocational education is listed as an "encouraged" segment for foreign education investment. Pre-school, senior secondary and higher education are all classified as segments with “limited entry”, available only to China-led Sino-Foreign joint education. Foreign education investment in Chinese compulsory education is strictly prohibited.

---

In the China (Shanghai) Pilot Free Trade Zone, foreign invested enterprises are allowed to be 100% fully foreign invested, under the latest Circular by MIIT in 2015 – the **Circular on Removing the Restrictions on the Foreign Equity Ratios in Online Data Processing and Transaction Processing Services (Operating E-Commerce) in the China (Shanghai) Pilot Free Trade Zone** (关于在中国 (上海) 自由贸易试验区放开在线数据处理与交易处理业务(经营类电子商务)外资股权比例限制的通告).
Internet censorship

Content delivered via online education is regulated by:

- The Cyberspace Administration of China – the central governmental agency for internet censorship. It also serves as the executive arm of the Office of the Central Leading Group for Cyberspace Affairs which was established in 2014, led by President Xi Jinping.

- The State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) plays an important role in regulating film, television and internet content, and administers the distribution license for online publishing and online video streaming services. Literally most textual, audio, video and multimedia contents published online are potentially under censorship and administration by SAPPRFT. This regulatory framework can be quite confusing and opaque. However, at least for the current online K-12 education sector, the SAPPRFT tends not to interfere, as long as the content provided online does not provoke the regulator’s attention by deliberately violating Chinese law or touching upon socio-politically sensitive topics.

Indication of future trends related to regulations

In terms of future regulations, it is important to note that the system is inherently opaque and it is impossible to predict. The 13th Five-Year Plan for Education (2016-2020) has set the goal to actively promote "Internet Plus Education", with one of the priorities to establish a comprehensive regulatory framework for the online education sector. During the National People's Congress (NPC) & the Chinese People's Political Consultative Conference (CPPCC) Annual Sessions 2017, deputies to the NPC proposed to establish specific legislation for "internet education" in China, given the rapid development of online education in China.

In general, the Chinese Government is committed to loosening regulations for a more simplified, transparent regulatory environment for foreign investors. In 2017, the Chinese State Council has issued two Circulars on private investment and foreign investment respectively, to invigorate private investment in a few sectors that were primarily state-controlled, including education, and even to streamline administration processes for private market entrants. China will also "gradually open-up" the telecommunication, internet and education sectors for foreign investment.

Yet international providers aiming to enter the online K-12 education sector in China still need to be careful of two major aspects related to a guarded fundamental right for citizens in the country’s public service and social welfare system:

- **“Education Sovereignty”**: K-12 education is officially seen as part and parcel of China’s national sovereignty, which is sensitive to potential foreign interference. The term “education sovereignty” has recently gained popularity among government officials and policy influencers in China, and made its way to international spotlight, when the Shanghai Municipal Education Commission proposed to curb international programs in private K-12 schools last year, citing the rationale to uphold the "education sovereignty of China". So far, the government has yet to express a clear opinion towards online delivery of international curriculum education by foreign providers, leaving the area an uncertain regulatory vacuum.

- **“Equality of Education”**: Education equality has been at the core of the national education informatisation project; and it has been a main driver behind the recent amendment of the Private Education Promotion Law of PRC, which proposes differential administration for for-profit and not-for-profit private education, and bans for-profit private operations in compulsory education. There is a fine line between acceptable for-profit business and inadmissible violation against the right to education within the government, although sometimes, it is confusing and unclear for the public to follow.

---

* Circular on Further Boosting the Vitality of Investment for Social Sectors (国务院办公厅关于进一步激发社会领域投资活力的意见，国发[2017] 21号); Circular on Several Measures for the Expansion of China’s Opening-Up and Active Use of Foreign Capital (国务院办公厅关于扩大对外开放积极利用外资若干措施的通知，国发[2017]5号)
Market entry advice

Market entry considerations

Education as an industry tends to develop at a slow and steady pace. Despite the rapid development within the online education sector, it can still take quite a long time for even best-in-class products to grow the necessary user base and gain traction in the market. Australian organisations should consider various considerations before entering the market.

- **Profitability** – Although online K-12 education startups and products have mushroomed in China, very few of those companies have succeeded in developing a sustainable profit model, especially as competition in the market has heated up. Data from the China Online Education Research Institute suggest that only 5% of online education companies were profitable in 2016, while 70% reported losses. Chinese parents and families used to invest heavily in education, but families’ spending on online education is still weak, especially given that many online products are free. After their early stage of expansion, many startups encounter this critical issue of monetising their traffic from users.

- **Regulatory uncertainties** – Besides the potential risk of firewall and internet censorship from the Chinese government, China’s current lack of specific regulatory frameworks for online K-12 education adds notable risks.

- **Intellectual property protection and localisation** – IP protection is a critical issue for international providers, even as China has risen to become a global IP powerhouse. Moreover, with relentless competition, patent protections are not the only thing that requires caution from international providers. There have been cases of Chinese companies rising to become major players in various tech-driven sectors, through the localisation of a successful business or technological models from their international counterparts (such as Apple and the Chinese Xiaomi in smartphone design, or Uber and Didi in the mobile ride-sharing app business). The danger is not simply Chinese “copycats” but rather that this new era of Chinese businesses have become very adept at dramatically tailoring (and improving) successful international offerings for the Chinese audience. International providers will need to proactively and effectively adapt their solution to the local market and keep upgrading their products and services, to avoid leaving an opening for a local competitor to leapfrog them with a dramatically improved local version.

Targeting and prioritisation for market entry

Target demographics and products

Chinese consumers expect different things from domestic versus international online education providers. The market’s recent enthusiasm in international online K-12 education indicates that western-style education, its future-facing approach, and the global dimension are among the key propositions valued by the Chinese K-12 market.

| Early childhood (preschool to kindergarten) | • Online English language learning plus international preschool educational programs in various areas, e.g. early intelligence development, STEM and logical thinking, arts and music, learning the world (geography, animals)  
| | • Gamification (educational games) is key.  
| | • Mobile learning apps on tablets, and Online-to-Offline (O2O) blended learning to engage parents and provide face-to-face interaction with teachers and peers are both popular for this group. |
| Years 1-9 (compulsory education) | • Extracurricular programs focusing on English language learning, international academic courses and future-ready skills development e.g. online English language learning and introduction to world societies and cultures, English-medium international elementary and secondary school curriculum, STEAM programs |
Edtech solutions are another potential segment in the K-12 online education sector. The most popular technologies in this sector include cloud education solutions, live streaming, adaptive learning, VR and other wearable learning devices, AI, and MOOCs. Although education is the core of online education, it is technology that makes a difference in changing the learning experience and the market will continue to incorporate innovative technologies into online education solutions.

Target regions - Tier 1 and 2 cities vs. lower-tier locations

Major tier 1 and 2 cities like Beijing, Shanghai, Guangzhou, Shenzhen and Hangzhou have the largest number of affluent families. These families are internationally sophisticated and are traditionally seen as key targets for online and international education providers.

However, lower tier Chinese regions enjoy growing spending power, lower development costs, maturing internet infrastructure and a rising number of online and mobile internet users. Lower tier cities may be high growth markets for online K-12 education in coming years. In 2016, New Oriental and TAL Education Group – two of China’s most influential providers in the field – started to carefully launch new product lines in tier 3 and tier 4 cities, which were customised to average family earnings and the learning habits of target locations. Nevertheless, these regions continue to lag behind tier 1 locations in terms of internationalisation, and the major focus for online K-12 education in tier 3 and 4 cities remains rather limited to test-prep and academic tutorial products. Tier 1 and 2 cities have demonstrated greater preference for products in online international education, preschool education and edtech service platforms; and it may take more time for the lower-tier markets to accept the kinds of products being offered by international providers.

Therefore, it is recommended that international providers focus on traditional markets in major tier 1 and 2 cities for the time being, while testing lower-tier markets and developing relevant longer-term strategies to expand to tertiary regions as their international sophistication and spending power grows.
Market entry strategies and distribution channels
For foreign market entrants looking to establish a legal entity in China, both the Wholly Foreign Owned Enterprise (WFOE) and joint ventures are viable structures. In general, foreign online education providers operate in China in one of four ways:

- offering the solution within China by
  - establishing a WFOE
  - establishing a joint venture in China
  - partnering with a China-based company
- offering the service directly from overseas.

The foreign providers’ market entry approach must be consistent with its in-country partnership strategy and commercial model.

We have briefly categorised these models and related distribution channels (B2C, B2B, or B2B2C) in the following table, followed by an analysis of the pros and cons of both direct and indirect distribution channels, and delivering their educational/technological offerings from China and Australia.

<table>
<thead>
<tr>
<th>Delivery in China</th>
<th>Delivery from Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>B2C</strong></td>
<td><strong>An Australia-hosted product website or PC/mobile application</strong> directly accessible from China and ideally localised with a user interface in Chinese language. For commercial operations, cross-border e-payment and/or product subscription channels may also be required.</td>
</tr>
<tr>
<td>• Establish a China-based website/mobile application for web-based commercial operation in China.</td>
<td></td>
</tr>
<tr>
<td>• Partner with Chinese international schools to offer elective, extra-curriculum educational programs, STEM products, relevant course or English tutorial materials, or edtech products paid by parents. (e.g. see the above case study of EtonX)</td>
<td></td>
</tr>
</tbody>
</table>
| • Partner with online K-12 education companies in China:  
  o Joint delivery, franchise, licensing, accreditation etc. with content providers  
  o Launch products or services via online K-12 education platforms from MOOCs to other education e-commerce channels, e.g. NetEase Opencourse, Tencent Classroom.  
  o Work with edtech companies who are welcoming collaboration with foreign providers for advanced technology or complementary content building. | |
| • Partner with government bodies to get connected with potential Chinese schools, educational organisations, or relevant government-led projects. Usually, government partnership may call for introductions or assistance from embassies, education departments or industry peak bodies. | |
| • Launch product or service on global and major Chinese mobile app distribution channels, such as Wandoujia, Baidu Mobile Assistant, WeChat “mini-programme” Appstore) | |
| • Directly partner with a domestic-registered company in China: the legal and governing issues of contract are a key risk to consider when signing a contract with a Chinese company. Clarification of governing law and language from the pre-contractual period is recommended, and China’s strong cultural aversion against enforcing foreign arbitration award should also be taken into consideration. | |
| • Partner with a multinational company with a registered entity in China | |
| • Partner with Chinese schools, institutions or less likely, the Chinese Government. | |
## Delivery in China vs. delivery from Australia

<table>
<thead>
<tr>
<th>Pros and cons of delivery in China</th>
<th>Pros and cons of delivery from Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Better access to the local market and business partners</td>
<td>✓ Greater control over global business operation, including in the China market, especially in terms of company administration, product distribution and quality assurance of local account management</td>
</tr>
<tr>
<td>✓ Quicker response cycle to adjust product and business strategies according to local market performance and demand</td>
<td>✓ Low or zero taxation from China</td>
</tr>
<tr>
<td>X Requires significant financial commitment and investment in setting up an in-country entity or representative office.</td>
<td>X The Great Firewall and other major regulatory and censorship roadblocks against foreign capitals</td>
</tr>
<tr>
<td></td>
<td>X Significant challenges in marketing and promotion, especially in reaching local audiences</td>
</tr>
<tr>
<td></td>
<td>X Cash and trade flows may be threatened by China’s tightened control and crackdown on capital flight.</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Maintain full control over local distributions, service provisions and customer relations</td>
<td>✓ Gain local market insight from working with distribution partners</td>
</tr>
<tr>
<td>✓ Greater confidentiality over business operation and intellectual property.</td>
<td>✓ Segmentation and better access to the target audience through existing business relations, customer shares and market experience of the local partners</td>
</tr>
<tr>
<td>✓ Ability to obtain direct feedback from customers and adjust products, service provisions and market strategies in accordance.</td>
<td>✓ Potential cost sharing with local distribution partners especially in branding and promotion</td>
</tr>
<tr>
<td>✓ Lower distribution cost</td>
<td>✓ Potentially easier to pass through local regulation and approval processes with local assistance</td>
</tr>
<tr>
<td>X Potentially insufficient local market expertise to adapt business operation to fully meet local customer needs, or to identify and reach the most suitable niche of local customer for the product</td>
<td>X Potential conflict in business interest, which may lead to risks like the violation of intellectual property ownership</td>
</tr>
<tr>
<td>X Difficulty in growing a necessary pool of interested buyers during initial market entry and promotion period</td>
<td>X Real customer and product loyalty in question</td>
</tr>
<tr>
<td>X Navigate through local regulatory hurdles independently</td>
<td>X Lack of control over marketing and local customer and account services</td>
</tr>
<tr>
<td></td>
<td>X Distribution partner support and management can also be costly in order to ensure the partner understands the value propositions of the brand and product and avoids misrepresentation</td>
</tr>
</tbody>
</table>

Delivery in China offers more advantages both operationally and with respect to market access and market penetration, but establishing a WFOE or joint venture requires more significant investment to operate a business entity in China.

In terms of distribution channels, more and more international providers are combining the B2C and B2B/B2B2C models, in order to accelerate growth and raise awareness of a business presence in China – most notably the example from Sony Global Education aforementioned. In-market partnership is a necessary and highly recommended strategy in China for foreign market entrants, as a good partnership could effectively bring in resources and contributions for local brand building, market development, product distribution and customer relations.
In-market partnership

International online providers are likely to partner with such entities as:

- Public sector
  - Local governments
  - K-12 public schools
  - Chinese universities
- Private sector
  - International kindergartens and schools offering international curriculum programs
  - Study abroad agents with major strengths in the Australia-bound market
  - Online education or edtech companies
  - Other potential cross-sector investors/providers with interest in international online K-12 education

Public vs private procurement

China’s government allocates billions of funding dollars annually to procure education information technology and services, making the public sector currently a large potential buyer. Many domestic Chinese providers—especially cloud education technology solutions providers like Weidong Cloud and Talkweb Education—have thrived almost solely on public procurements in the name of private-public-partnerships (PPPs).

Nevertheless, despite general government support to call for more PPP engagement from foreign enterprises, a key disadvantage for international providers in the online K-12 sector—when facing competition from domestic vendors—is that they tend to lack the necessary relationships or recognition from specific local schools or government departments. Unlike other public mega-projects like transportation or infrastructure construction, the investment scale in procuring online K-12 education products is much smaller. So while local public schools or education departments tend to have greater autonomy financially as well as in the decision-making process, it is more challenging for international providers to get on their radar. As a result, lots of introductory and relationship-building efforts are required beforehand. Therefore, to enter the public procurement market in China, it is recommended that international providers start with investing in more preparatory and ground-laying collaborations with the public sector—for instance to conduct joint research and development for online K-12 education with Chinese universities, piloting collaborative trial programs with public schools, or engaging in education charity with local industries and/or government authorities.

To secure procurement from the private sector in China also requires a considerable amount of networking and relationship building. However, compared to the public sector, the private sector may offer more immediate returns on investment. Based on the existing market success for international providers in China, private international schools, premium-branded domestic education providers and technology companies are recommended potential business partners as well as buyers for quality content and technologies in the online K-12 education sector.
### Due diligence for business partner development in China

Finding the right partner for sustainable growth is a key challenge for international businesses and educators in China. Suitable domestic partners in China may be divided roughly into three categories:

- Government bodies, universities and state schools
- Private international schools
- Domestic education and/or technology companies

Schools and governments have more credibility but they are also more difficult to penetrate and bureaucratic to work with. In contrast, private international schools and domestic companies are more flexible but they present risks and uncertainties around quality, capability and credibility. The following table lists some of the key items for international providers to review when conducting due diligence in China.

<table>
<thead>
<tr>
<th></th>
<th>Government / universities / public schools</th>
<th>Private international schools</th>
<th>Domestic companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic values</strong></td>
<td>• Vision and understanding of global education</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Determination to promote and implement online K-12 education</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Governance &amp; management</strong></td>
<td>• Identify the decision-maker</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Compliance and cooperation between board, senior management and on-the-ground staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Competence and integrity of the entity’s operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Service levels</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Business ethics and social responsibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Facilities &amp; human resources</strong></td>
<td>• Adequate facilities and staffing capability</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reliability of existing technology for online delivery</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Quality and professionalism of teachers and administrators</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Curriculum and assessment methods</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td>• Cut-off date or limit for budgeting and spending from public sources</td>
<td>• Critical financial relationships with banks and investors e.g. debts/loans/opaque transactions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Historic capital raising activities</td>
<td></td>
</tr>
<tr>
<td><strong>Market operation</strong></td>
<td>• Number of existing students/users</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Existing credentials for market operations (e.g. ICP license, education license, business registration certificates and registered business scopes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Partnership</strong></td>
<td>• Track record with current international and local partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Relationships with competitive or overlapping providers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The importance of marketing and distribution cannot be underestimated in China’s online K-12 education market. Major internet giants like Baidu, Alibaba and Tencent have all developed and run e-commerce platforms for online education; and there are also specialist start-ups like Juesheng.com.

**Recommended marketing channels for product promotion and distribution**

<table>
<thead>
<tr>
<th>Online</th>
<th>Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Set-up an official Chinese website or develop localised Chinese mobile apps</td>
<td>• Attend international as well as China-specific expos and conferences in online education and education technology. (In China, they are usually hosted by government bodies, universities, industry associations etc.).</td>
</tr>
<tr>
<td>• Undertake professional, active, consistent social media marketing on major Chinese platforms like Weibo, WeChat and live-streaming channels like YY Live</td>
<td>• Press releases, advertorials or peer-review papers in trade magazines, industry newspapers and periodicals, because the traditional press is still influential and attracts a large number of readers and subscribers in China’s education industry (especially within the state system).</td>
</tr>
<tr>
<td>• Offer online course/product trials and provide incentives for word-of-mouth referrals from existing clients or users</td>
<td>• Regular visits to Chinese schools, brick-and-mortar English tutorial and international education centres, study abroad agents or other potential partner organisations.</td>
</tr>
<tr>
<td>• Online advertorials focusing on product reviews and user experiences by major digital press or social media influencers in the field</td>
<td>• Network regularly within the industry in China and actively cultivate and help your connections as many advances for successful companies in China can be traced back to receiving help or intervention from a loyal business connection</td>
</tr>
<tr>
<td>• Search engine marketing on major Chinese platforms, notably Baidu</td>
<td></td>
</tr>
<tr>
<td>• Trials on major course selection platforms like NetEase Opencourse</td>
<td></td>
</tr>
</tbody>
</table>
Conclusion

The growing ubiquity of internet and mobile platforms in China has enabled new online education options, making educational resources easy and equal to access for everyone. In the K-12 sector, online education has its roots in government initiatives in China, but the past two decades have seen significant development – both public and private.

In the public sector, the Chinese Government's emphasis on the informatisation of education has driven momentum in the K-12 online sector. Online education enables schools and teachers to use advanced technology for education reform and to adopt innovative teaching methodologies, and it also helps teachers and students to overcome geographic distance, pollution, extreme weather or other impediments. In the private sector, beyond traditional language training and test-prep tutoring, the K-12 online education market can be broken down into various smaller segments, including language competence training, future-ready skills training, preschool education, and edtech tools and services, all of which present opportunities for Australian online education providers.

Various stakeholders are involved – parents, students, schools, private enterprises, educational organisations, and governmental bodies – creating opportunities for local partnerships.

In any new market, challenges accompany opportunities. Localisation of educational offerings, local competition, regulatory barriers, internet censorship, business operations in China, and difficulties in establishing and managing partnerships with local counterparts all represent potential challenges for foreign market entrants, and require careful management.

Overall, the China market is open to foreign investment and partnerships, but foreign entrants need to be sensitive to such issues as education sovereignty, or topics that could arouse internet censorship from the Chinese Government. Australian companies should take steps to identify their niche markets, set market entry strategies, evaluate the need for in-market partnerships, conduct due diligence, and explore potential marketing channels to ensure their offerings will land successfully in this promising Chinese market.
Endnotes


The Australian Trade and Investment Commission – Austrade – contributes to Australia’s economic prosperity by helping Australian businesses, education institutions, tourism operators, governments and citizens as they:

- develop international markets
- win productive foreign direct investment
- promote international education
- strengthen Australia’s tourism industry
- seek consular and passport services.

Austrade delivers international marketing and promotion services to the Australian education sector. This includes positioning Australian education through the international education brand, Future Unlimited. Future Unlimited highlights the global relevance, practicality and quality of Australian institutions, along with their innovation, creativity and focus on the future. Austrade also supports Australian education providers through a range of information, advice and tailored services to support their international education engagement strategies. This includes the delivery of accurate and timely market intelligence and opportunities through the Market Information Package, an online portal available on a subscription basis to eligible institutions.

W austrade.gov.au E info@austrade.gov.au T 13 28 78 (within Australia)