



BLENDED LEARNING IN CHINA: BLURRING THE LINES OF ONLINE AND OFFLINE ELL

BY: ERIC SKUSE

China's English Language Learning (ELL) Boom Evolves

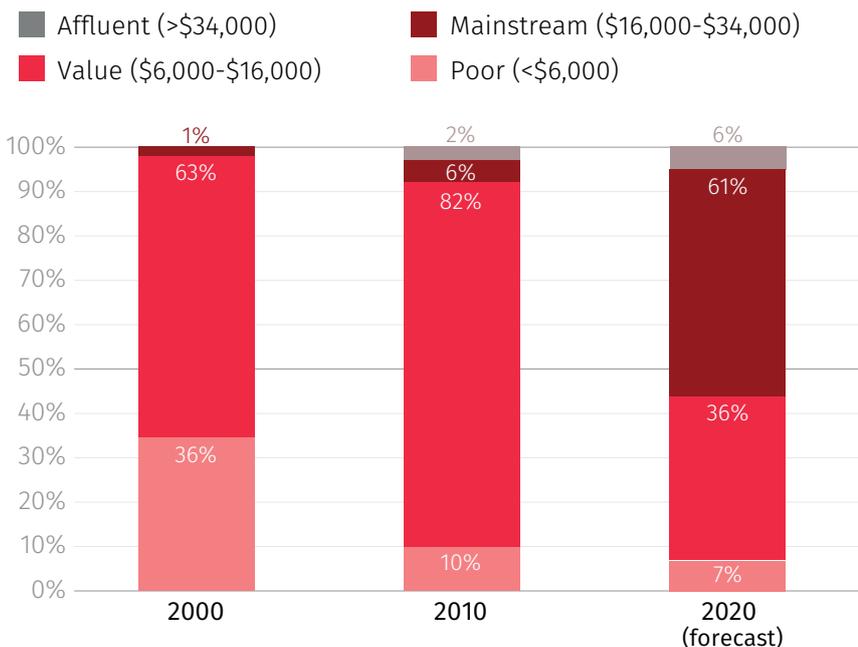
ELL in China has experienced a decade of blistering growth—it was a \$4.9 billion industry in 2013 and is currently growing by an average of 12-15% a year¹—but fundamental changes are underway due to changing consumer preferences and the availability of new technology. Dreams of getting into top-flight universities continue to propel students from all over the Middle Kingdom into English language classes at fee-paying supplementary schools. However, the question that remains for industry stakeholders is, what is the ideal position to take in China's rapidly evolving ELL landscape? Emerging Strategy's recent study into long-term trends affecting ELL in China sheds light on the trends that will impact future demand.

“There are now more Chinese people learning English than there are native English speakers on the planet, which is astounding really. The Chinese are very hungry to learn English,”

**-Chief Marketing Officer,
English First Education**

In discussing the rising demand for ELL in China, assessing motivation and demand drivers is exigent. Admission to high-quality higher education institutions remains the fundamental driver of demand behind China's ELL boom. Due to the premium placed on quality higher education in China, coupled with the steadily rising incomes of the middle class, Chinese students have surpassed all other international student populations at most universities in English-speaking countries. With urban household incomes expected to climb higher into the next decade, Chinese families will continue to pursue higher education in English-speaking countries for their children.

Share of urban households by annual income (%)*



Source: McKinsey Global Institute (2013)

*Conversion based on 2010 USD/CNY exchange rate of 6.73 CNY/\$

¹Ambient Insights (2013)



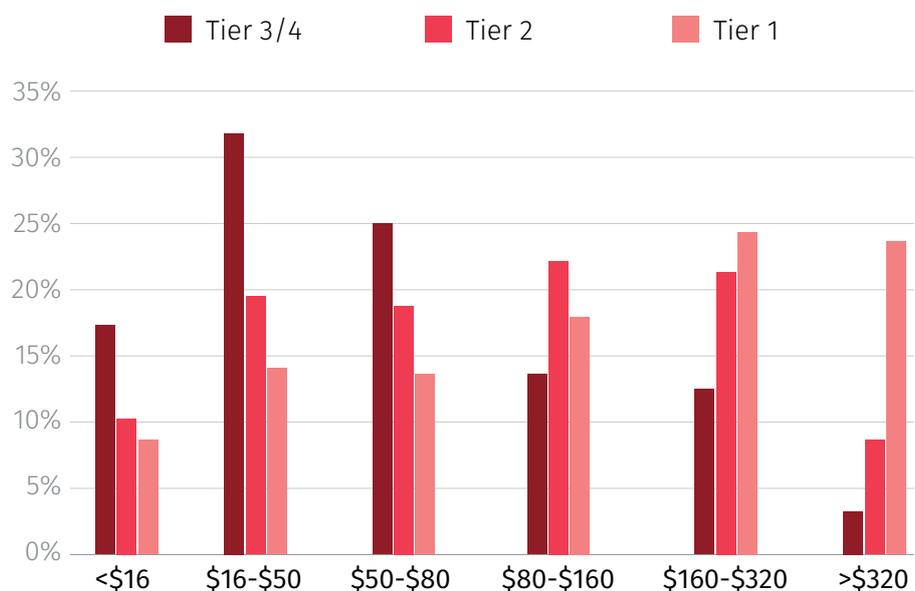
“In my experience, families want their children to do the IB for two different reasons. Some are interested in the curriculum and the IB helps their children gain access to foreign universities. The others chose it purely to develop their child’s English”

-Coordinator, Peijia Bilingual School

To a lesser extent, middle- and high-income Chinese families are now considering English-based curriculums at secondary school level. An unprecedented number of Chinese students are currently studying at high schools outside their native country—23,795 Chinese students were studying in U.S. secondary schools in 2013.² Not only are more Chinese students studying in English-speaking countries than ever before, but increasing numbers of students are studying English-language curricula in China. International schools in first-tier cities such as Beijing and Shanghai are quietly opening their doors to local students to study English-language curricula including the International Baccalaureate (IB) and Cambridge International Examination (CIE). International programs at Beijing secondary schools experienced enrollment growth of 25% in 2013.³

Families who aspire to send their children to costly international schools both in China and abroad must turn to traditional fee-paying supplementary English language schools, online-only ELL, or a combination of both to give their children the quality English-language instruction that public schools do not provide. English-based curricula can better prepare students to compete for highly coveted places in top colleges both in China and abroad.

Monthly urban household education expenses by development tier (%)*



Source: iResearch China, 2015

*Conversion based on 2015 USD/CNY exchange rate of 6.2CNY/\$

² Emerging Strategy (2014)

³ Chinese Education Online (2014)

Blended learning's bright future

Emerging Strategy conducted a study to analyze long-term trends affecting ELL in China as well as in other major markets. Our analysis is informed by primary research conducted with industry leaders and experts. The information gathered in this study points to fundamental changes primed to affect China's ELL market.

A cursory glance at the macro level may suggest that due to rising incomes and smartphone penetration, mobile ELL will experience rapid growth. From this angle, mobile ELL certainly presents a myriad of opportunities in China, however, a more nuanced approach is needed to shed light on trends affecting the industry. Advancing technology complicates the backdrop against which ELL operates due to the uniqueness of the Chinese market.

In first- and second-tier Chinese cities, competition for market share between online-only and brick-and-mortar institutions will only intensify as traditional online and offline boundaries begin to fade whilst blended learning thrives. Blended learning solutions, where in-class and online instruction are packaged together, are likely to become a high priority for traditional supplementary fee-paying schools and online startups alike. Online-only ELL companies in particular stand to gain a significant competitive advantage from establishing footholds in brick-and-mortar ELL classrooms.

In second- and third-tier cities where high quality brick-and-mortar penetration is low, a number of opportunities are present. Lower quality brick-and-mortars often cannot provide the high quality

verbal English instruction now demanded by middle class families. Online delivery of high quality verbal English could directly address an underserved segment of learners by providing quality verbal English instruction in China's rapidly urbanizing cities. Strong cultural biases will likely impede widespread adoption of purely online-only ELL options, therein lessening resistance for blending learning into the digital ELL market.

For online-only ELL providers looking to enter the Chinese market – contingent on circumstance – blended learning partnerships with traditional brick-and-mortar schools could generate substantial growth opportunities.

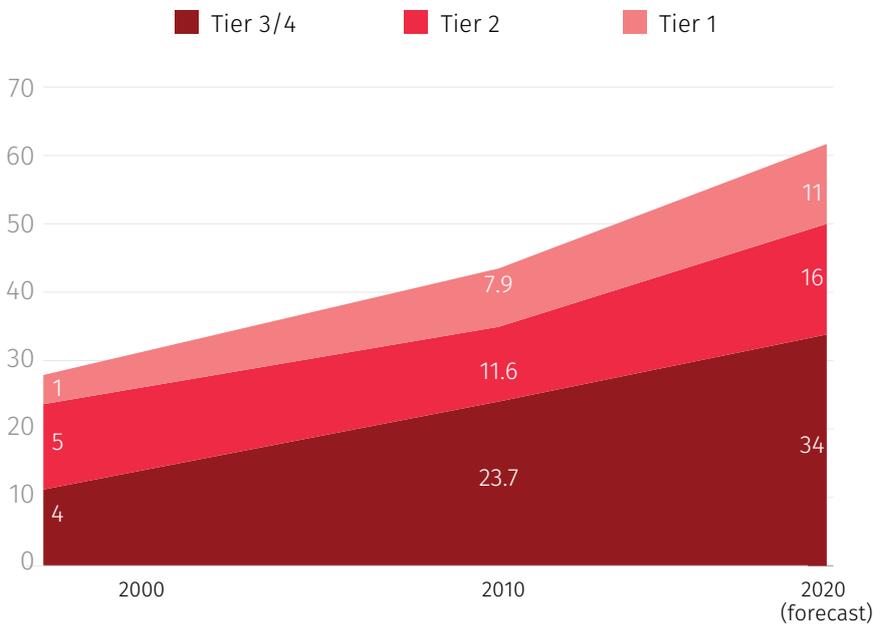
Combining the classroom experience with supplementary technology such as peer-to-peer video, speech recognition technology, and a host of other new technologies, will be a win-win scenario for both online ELL providers and China's traditional brick-and-mortars going forward.

Focusing on the underserved segment of lower tier Chinese cities would prove strategically valuable. Our analysis shows that when it comes to education expenditures, third- and fourth-tier cities each currently have a higher total of high spending households than the first- and second-tier cities combined. If current trends concerning population growth and education expenditures continue, ELL providers can expect to find a market of 34.4 million high-spending urban households in third- and fourth-tier cities by 2020.

“Take middle and elementary school education as an example. The users (students) and the payers (parents) are not the same group. So, a tough problem for online education organizations has been to promote courses to the payers and in the meantime stimulate the interest of the users. The parents are all holding a “trial” attitude towards online education.”

-IT analyst, China Economic Net

Number of urban households with above average monthly spending on education, by development tier (millions)



Sources: iResearch, Nielsen's, McKinsey Global Institute
 Note: Above average spending > USD 160/month.
 Projections based on Emerging Strategy analysis*

Practical English for K-12 Students

In previous years, most fee-paying supplementary English language schools have functioned merely as “cram schools”. These schools supply test prep classes tailored to high school and university entrance exams; the “gaozhong” and “gaokao”, respectively. In an effort to boost test scores, many providers employ pedagogy based on rote memorization of vocabulary and grammar, usually to the exclusion of authentic verbal communication. Every year approximately 10 million students take the national university entrance exam⁴, and precisely because these high-stakes exams determine admission to China’s most selective high schools and universities, they are critically important in the eyes of Chinese families. Maximizing performance on these high-stakes English exams

*Projection analysis is based on: 1) share of urban households, by city development tier as of 2010, 2) urban household expenditures on education by city development tier as of 2015

⁴Ambient Insight (2014)

has been a foundational demand driver for ELL from the inception of the industry. However, recent policy changes at the Ministry of Education have reduced the overall weight of English test scores for the gaokao. In Shanghai and Zhejiang province, students will be allowed to take the English test twice – in January and June – and will be permitted to use the higher of the two scores as their gaokao English test result. These policy changes are intended to reduce the tremendous stress endured by the nation’s high school students, but this may also produce a change in consumer preference away from traditional test prep ELL.

Out of China’s test prep-centric ELL culture a phenomenon of “yaba yingwen” has taken hold. The term translates to “can read but cannot speak”, and refers to people who have studied English reading and writing while neglecting oral English to the point where they cannot confidently express themselves verbally, despite having completed years of diligent practice. Backlash against the “yaba yingwen” phenomenon, coupled with ongoing policy changes to high-stakes English exams at provincial levels, indicates that preferences are shifting from test prep to more communicative, verbally-focused products and services. Companies are well aware of the growing importance of verbal English instruction and are continually adapting to customers’ tastes.

Riverdeep Immersion Subject English (RISE English) is a Chinese-American joint venture between Beijing Riverdeep International Education Technology and Houghton Mifflin Harcourt (HMH), a major publisher. RISE English offers English-based subject matter classes in math, science and other subjects using HMH materials. As the only Chinese provider licensed to use their software, they have uniquely positioned themselves to leverage the blue chip brand name of their foreign partner. The school was founded 2008 and is currently operating in 80 cities across China.

While RISE English’s offering may be unique, their joint partnership with a major American education company is not. In 2012, McGraw-Hill founded another Chinese-American joint venture with Oriental Baby Care, a preschool chain operating 450 schools in 180 Chinese cities. By 2014, Oriental Baby care had 570 preschools throughout the country using McGraw-Hill’s digital ELL materials. Consumer trust and preference for foreign brands gives unique advantages in the Chinese market that Chinese firms are well aware of.

“Currently, the importance of English language learning seems to be found mainly in commerce and industry. To take Shanghai as an example, many western companies have branches and investment in the city and the lingua franca is English, so many local people require English in order to find and secure a job in these companies”

**-Head of Instruction,
English First**

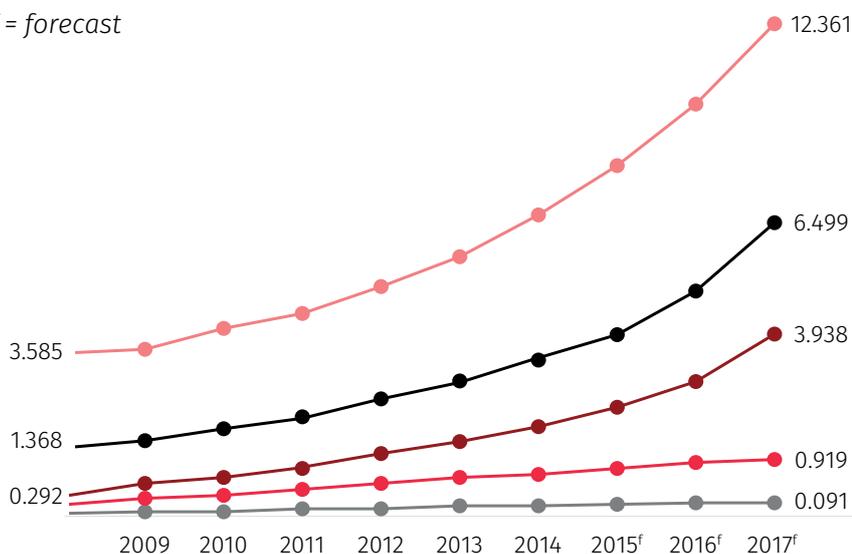
What's next for ELL in China?

China's online education market is undergoing an unqualified boom—investments in Chinese online education totaled USD \$470 million in the second half of 2014 and blue chip firms such as Alibaba, Tencent and Baidu are scrambling to get a piece of the action. These Chinese tech giants are rolling out their own platforms and acquiring smaller firms in order to gain market share in this growing space. A recent report from iResearch Group estimated the number of China's online language learners would grow from ~5.3 million people in 2009 to ~25.8 million in 2017⁵. Given the necessity of English language proficiency for academic and career opportunities, many millions of Chinese people will be going to online platforms to learn English in the near future.

Total number of online language learners in China by market segment (millions)

■ Post-secondary students ■ Students studying abroad
■ Primary & secondary students ■ Pre-K students ■ Professionals

f = forecast



Source: iResearch Group (2014)

⁵iResearch Group (2014)

While post-secondary students are forecasted to make up the majority of online language learners, the number of professionals learning English online will rise as well. The rising demand for verbal English proficiency in the Chinese job market will also act as a catalyst for this. Among other things, English proficiency can open doors to some of the most sought after careers at the most desired employers. State-owned enterprises (SOEs) represent the gold standard of employment for young Chinese professionals seeking prosperous, stable careers. Employment at these firms is competitive and English proficiency is increasingly required for entry-level positions. Companies such as China Mobile, China Southern Airlines and Industrial and Commercial Banking Corporation (ICBC) all require English language proficiency demonstrated through high-stakes verbal English exams.

Outside of the upper echelons of the Chinese corporate world, a number of organizations require English speakers with specialized, or technical language proficiency. Specialized vocational ELL products are high demand in business, hospitality, finance, law, medical, oil & gas, tourism, aviation and engineering. Due to the growing need for workers with English proficiency in order to compete globally, firms in these priority industries are now requiring English proficiency of their employees. A survey of online language learners found that the primary reason for learning another language, cited by 53% of respondents, was for employment purposes⁶. Specialized English training programs are needed to meet the demands of employers and job seekers alike. This presents fruitful opportunities in the specialized and technical English spaces.

“The education system is shifting from being teacher-centric to student-centric. The modern student demands high quality, flexible, personalized learning. The current bricks-and-mortar education system is simply not equipped to do this at scale,”

**-Area Service Director,
Wall Street English**

⁶iResearch Group (2014)

As demand for online learning builds, is brick-and-mortar ELL crumbling?

Online-only ELL offerings will certainly gain ground on traditional fee-paying supplementary institutions (i.e. brick-and-mortars) for two key reasons. First, online-only ELL services like the live video conference-based classes such as those offered by TutorGroup, Hujiang and 51Talk appeal to busy, working adults. Video classes can be accessed from home, at any time, and do not require a long commute. Secondly, the online-only nature of these offerings ensures equal accessibility for underserved segments outside of the major cities—leading brick-and-mortar ELL providers are now just moving into select second-tier cities. Our research shows that beyond those second-tier cities, there is not a sufficient customer base to support a physical presence. As China develops further economically, the leading brick-and-mortars will continue expanding but Chinese students and professionals outside the major cities will likely remain underserved for some time. In fact, some brick-and-mortar ELL providers must fly English instructors out to less developed cities for private lessons at great expense to clients.

Pearson-owned Wall Street English launched classes delivered via online video in 2013 to appeal to their young professional clientele. It is now a rapidly growing program, but online-only students currently account for just 10-15% of their business⁷. The question of online delivery versus face-to-face for China's ELL market is an interesting one. But one thing is for sure, classes delivered online rather than face to face present an opportunity for offering convenience and accessibility.

“At first students are skeptical but once they realize they don’t have to travel, or get out of bed, they never come back to the center... we have a big housewife community, this is very convenient for them.”

**-Area Service Director,
Wall Street English**

⁷ Emerging Strategy (2014)

For all the arguments in favor of an impending online-ELL takeover, it is premature to herald the demise of the brick-and-mortars. Arguably most importantly, cultural biases will continue to weigh heavily against online-only ELL. English learners in China strongly value the teacher-centric model. Up till now, online-only ELL for K-12 school students has been met with skepticism by parents due in part to the central role of the teacher in Chinese society. Moreover, English classes at brick-and-mortar schools present valuable networking opportunities for professionals in first- and second-tier cities.

Leveraging the physical classroom experience that local partners can provide through blended learning agreements poses interesting opportunities for online-only ELL providers which are trying to reach households in China's less developed urban areas. As the country develops further, demand for quality ELL will continue to outstrip the supply in much of the country, leaving a rising number of upwardly mobile Chinese families woefully underserved when it comes to quality verbal English instruction.

About Emerging Strategy

Emerging Strategy is the leading provider of customized market intelligence services across global emerging markets. We understand the complexity and opacity that businesses face when competing globally, particularly in emerging markets. We believe in lifting the veil by providing senior management with objective insights about markets and market participants, so that global businesses can get world-class products and services in the hands of customers. Our work spans all continents, with a focus on Asia and Latin America, but our studies have spanned over 50 countries to date.

We are recognized for in-depth research and superb analysis, which we produce by drilling deep into primary and secondary sources not widely available, and then by analyzing and triangulating research to draw conclusions and recommendations. Due to the limited reach of English-language resources in international markets, our research is conducted by locally based, native speakers of the relevant language(s). Our global headquarters are in Shanghai, our Latin America headquarters are in São Paulo, and we have a presence in other key client locations such as Singapore, Hong Kong and New York.

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