



## THE BIG CALL

# A BOOM IN AFTER-SCHOOL TUTORING



A surge in the number of parents willing to pay for after-school tuition for their children is creating strong revenue growth for tutoring firms – but competition is shaving margins pretty thin.

**C**hina's market for private educational tutoring is booming. From three-year-old toddlers to 17-year-old high school pupils, Chinese students are spending many weekends and weekday evenings with private tutors, learning new skills or trying to improve their test scores.

The imperative to get good grades in China's hyper-competitive society is so strong that tutoring schools – especially those with a proven track record – are able to charge sizeable tuition fees, creating highly lucrative businesses.

China Confidential researchers in seven provinces spoke to 117 urban households and 58 private tutoring firms and kindergartens.

### OUR BIG CALLS FOR THIS REPORT ARE:

» **China's private tutoring market, which serves an estimated 33m students from primary to high school, is set to generate a total of Rmb298bn (\$48.9bn) in revenues in 2013, up around 20% from last year, when an estimated 27.5m students engaged in tutoring, according to China Confidential estimates, official statistics and tutoring company reports.**

» **Assuming a compound annual growth rate (CAGR) of 15%, the overall tutoring market could be worth Rmb394bn in 2015. The tutoring market is by far the largest segment in China's private education market, which also includes professional education, adult English-language schools and vocational education.**

» **Even though China's overall population growth is starting to taper off, a surge in the birth rate in major cities is set to keep tutoring demand growth strong in the coming decade.**

» **English language training is the most popular tutoring subject. We estimate the market for private k12 (from kindergarten to twelfth grade, or the final year of high school) English tutoring to be worth Rmb154bn, with 28.8m students taking regular after-school classes. Other popular courses include mathematics and physics, which are key entrance examination subjects.**

» **Despite strong demand, many tutoring companies are facing thinning profit** ➔

margins due to over-expansion. Market leaders such as New Oriental (EDU:NYSE) and Xueda (XUE:NYSE) are starting to scale back by closing loss-making outlets and reducing the pace of new openings.

» The future of private tutoring lies in lower-tier cities and inland provinces, where parents and students are beginning to embrace the idea. Our survey shows demand for after-school tutoring is rising fastest in smaller cities not only because parents are earning more, but also because competition for places at good schools is becoming stiffer.

**A BOOMING BUSINESS**

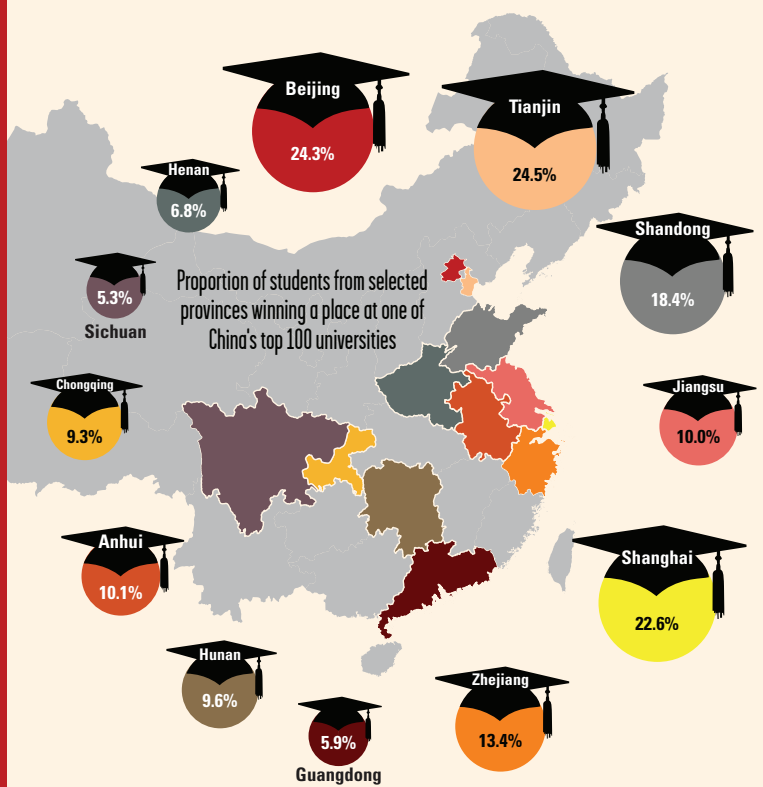
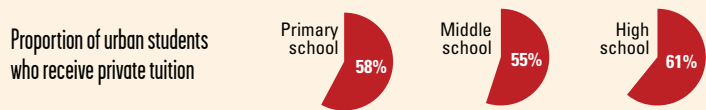
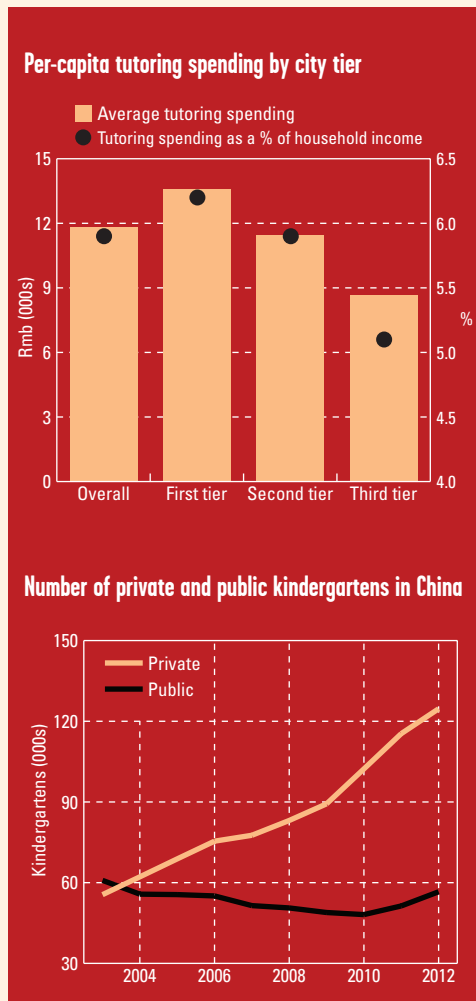
After-school tutoring used to be for children who were struggling with their grades. Tutors were usually state-school teachers moonlighting for extra pocket money. But this is no longer the case; tutoring

has gone mainstream. Most families that can afford it opt to sign their child up for tutoring, usually delivered by specialist teachers from a private tutoring company. 58% of urban parents we surveyed had a child receiving private tuition, with 61% of high-school students, 55% of middle-school students and 58% of primary-school students taking extra classes (see “Private tuition: key metrics”).

And these days, tutoring is not only for children who need help. Tutoring firms are also running successful courses for the academically talented who aspire to the top schools and universities. TAL Education Group, a Beijing-based private tutoring service provider, made its name by teaching students who rank within the top 20% of their class.

One of these is Lu Chengyu, a third-year student at the Middle School affiliated to Tsinghua University, one of China’s best. He is taking advanced English courses because he is not satisfied with what he has learned from school. Lu said ▶

**PRIVATE TUITION: key metrics**



Sources: Ministry of education, China Confidential



BLOOMBERG

With 28.8m after-school class pupils, we estimate the market for private k12 English tutoring to be worth Rmb154bn

that everyone in his class, except for those who are “super-talented” or well connected, is receiving private tutoring. Dong Yue, a Beijing mother, also opted for tutoring when she sent her son a few years ago to two private tutors to study for the Olympiad mathematics competition and to another three to prepare for the dreaded *gaokao* high-school entrance examination. The efforts paid off after Ms Dong’s son was admitted into the high school affiliated to Renmin University, a top-tier school.

While hiring a private tutor requires a significant financial commitment, rapid income growth is making it less of a burden for Chinese parents. According to our survey, an average urban family spends Rmb11,838, or 6% of its annual income, on children’s after-school tutoring. Ms Dong, the mother from Beijing, is paying more than Rmb40,000/year for her son’s private tutoring. Last summer, for example, she received a Rmb29,000 invoice after her son took a four-week intensive English course at New Oriental, a leading private education provider. That is a considerable amount even for a middle-income family like the Dongs, which earned Rmb300,000 last year.

Few parents dare to cut corners on their children’s education and the spending binge often begins early on. Soon after Xiao Hao, then three-years old, enrolled in a kindergarten in Nanjing in

2010, his mother decided to send him to a critical thinking study centre that charged Rmb500/month. A year later, Xiao Hao’s mother enrolled him into a Rmb1,000/month English course. “My son’s workload is small compared with his classmates,” she said, adding that most students at her son’s kindergarten take at least three courses such as piano and mathematics.

The tutoring race looks set to continue, as competition for good schools and universities intensifies. Our survey of parents showed that 77% of respondents plan to keep enrolling their children in private tutoring next year. Of these people, 55% plan to pay more for private tutoring in 2014. Ms Zhang, a mother in Beijing, said she will spend whatever it costs to find a good tutor for her son, who will sit the college entrance examination next year.

That is a boon for tutoring firms as they race to open new outlets. Guangzhou, the capital city of the southern province of Guangdong, now boasts 100,000 private tutoring firms, up from 33,000 in 2009, said an executive with Mingshi Education Co, a consultancy. Most companies are faring well. Our tutoring firm survey shows that 69% of respondents reported an increase in enrolment from a year earlier.

A number of national tutoring chains have emerged over the past few years. Our survey shows the most popular schools to be TAL Education, to which 12% of parents sent their children for tutoring, followed by Juren (11%), Xueda Education (8%), New Oriental (6%), New Hope (5%) and Onlyedu (5%) (see “**Private tuition: survey questions to parents**”).

The future outlook for these schools also appears positive. 74% of tutoring firms we spoke to are expecting to enroll more students next year.

### URBANISATION DRIVES DEMAND

The tutoring boom is helped in part by China’s highly selective education system that forces students to take extra courses to get into good schools and universities. Although university education is becoming more available,

top schools are still difficult to get into.

China’s top 100 universities admitted only 10% of applicants in 2013. In contrast, University of California at Berkeley, one of the world’s premier universities, accepted 20.8% of applicants this year. As university rankings largely determine job prospects, students are under intense pressure to excel in the national entrance examination, making test preparation tutoring immensely popular.

Urbanisation is giving a more fundamental boost to after-school tutoring, as city residents tend to




invest more in their children's education. Despite slowing population growth on a national level, most big cities have seen a jump in birth rates in recent years, thanks to an influx of young immigrants from other parts of the country. Shanghai's newborns, for example, surged to 226,000 last year from 83,000 in 2003. Beijing also reported 185,000 newborns in 2012, an increase from 88,000 in 2003. That creates strong demand for tutoring, as most of these babies are likely to grow up where they were born.

### ENGLISH TRAINING LEADS THE WAY

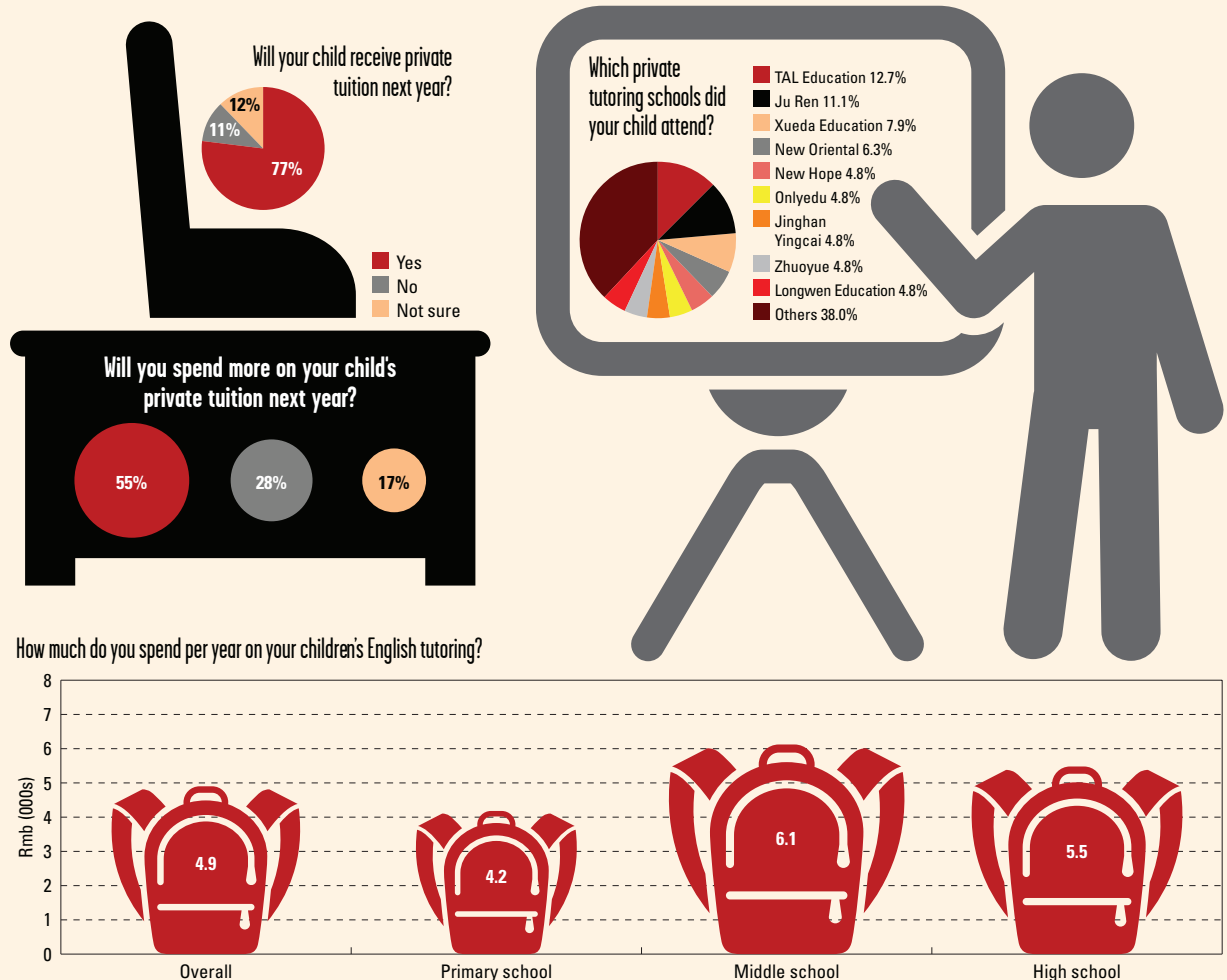
A whole range of courses, from taekwondo to Olympiad mathematics, are available at private tutorial providers and English is by far the most popular. 75.8% of tutoring schools surveyed said that English was their most popular course, followed by mathematics (42.4%), Chinese (30.3%) and science (24.2%) (see "Private tutoring: survey questions to private tutoring schools").

In Chengdu, Jiang Ming, teaching director of TAL Education Group, said English training is a must-have for most clients, as the world's most widely used language can open doors for children. Most tutoring firms shared Mr Jiang's optimism. 83% of tutoring firms surveyed reported a YoY increase in enrolment in English courses, while 71% of respondents are expecting enrolment to keep climbing next year.

A variety of English tutoring firms have sprung up, serving an increasingly sophisticated student body. In big cities like Shanghai, foreign firms such as Longman Schools and Disney English are popular among young learners aged between two and 12, thanks to their storytelling teaching approach. Local schools, led by New Oriental and TAL Education, are strong in test preparation and that gives them the lion's share of the student market, as English is a key part of entrance examinations for middle school, high school and university.

The cost of English tutoring varies across 

### PRIVATE TUITION: survey questions to parents



Source: China Confidential


different age groups. Our survey shows middle-school students spend the most (Rmb6,131/year on average) on English training, followed by high-school (Rmb5,468) and primary-school (Rmb4,176) students. Many parents are willing to pay even higher fees to get their children a better tutor. In Shanghai, Disney English and Longman Schools charge about Rmb10,000/year for a weekly course. Demand is so strong that both schools have opened multiple branches in downtown areas.

Olympiad mathematics is another popular subject among students of all ages. While the course isn't part of the national curriculum, it has become one of the key selection criteria for top schools to admit new students. That has spawned a boom in maths tutoring across the country. Qin Boyang, a ten-year-old primary school student in Linfen, a northern third-tier city, spends every Saturday afternoon studying Olympiad mathematics. Qin's mother said

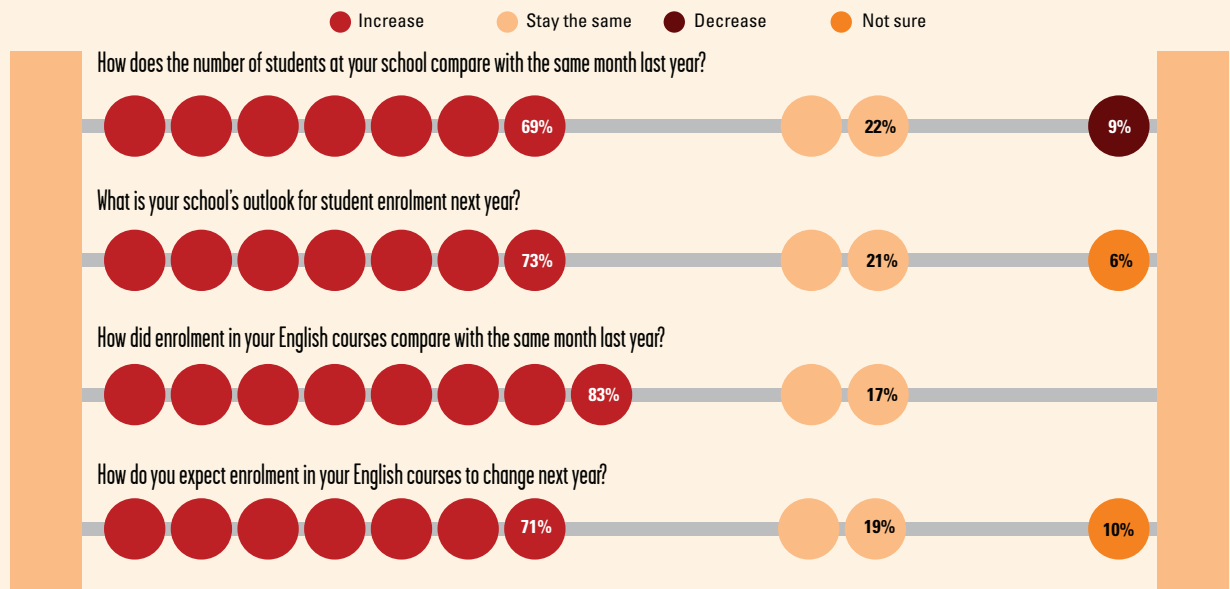
that the course, which costs Rmb500/month, is a good investment if it helps to get her son gets into a good middle school.

Many think that this maths mania is putting too much pressure on young students, however. The ministry of education last year banned public schools from using Olympiad maths as an admission criterion, resulting in a temporary slump in the share prices of some listed tutoring firms, as the maths course accounts for a large portion of their business. However, the market has returned to equilibrium as Olympiad maths remains popular, with some tutoring schools simply changing its name in the curriculum to "whole-brain training".

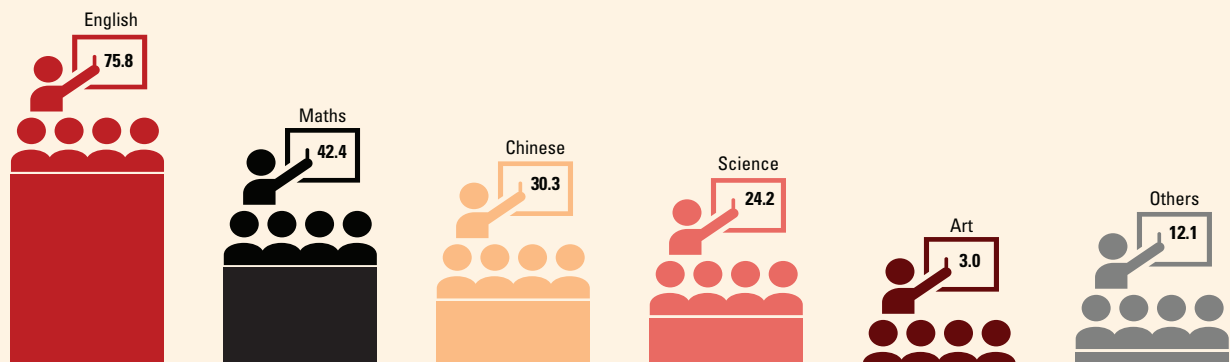
**BOTTOM LINE UNDER STRESS**

Given the robust demand, most tutoring schools are making healthy profits. 46.9% of tutoring schools surveyed classified their earnings as 

**PRIVATE TUITION: survey questions to private tutoring schools**



What are your most popular classes?



Source: China Confidential

“high profit”, 3.1% as “average profit”, 31.3% as “low profit” and 18.8% as “breaking even”, with none saying that they are making a loss (see chart 1).

However, stiff competition, combined with several years of unbridled expansion, have eroded margins, forcing many firms to cut back. Xueda Education Group (XUE:NYSE), for example, planned to open just 35 learning centres this year, down from 109 in 2012, 97 in 2011 and 76 in 2010. That came as the company’s net income fell from a peak of \$10.3m in 2010 to \$2m last year.

Christine Lu-Wong, chief financial officer of Xueda, told China Confidential that the firm has switched its focus over the past six months to profits, not cash flow. “(While) many learning centres have reported strong sales, their margins are so low – less than 2% – that it is better to put (the investment allocated for new outlets) into time deposits,” she said. Ms Lu-Wong added that the firm is paying more attention to operating benchmarks, such as course hours delivered per sq metre of their learning centres.

Indeed, gone are the days when a tutoring firm could make a fortune by hiring a couple of part-time teachers and renting a residential apartment as a classroom. Rising rents and teachers’ wages have cast a shadow over private tutors’ financial outlooks. Only 42% of tutoring schools surveyed expect their profits to increase next year, while 52% think their net income will remain unchanged in 2014 (see chart 2).

### LOWER TIER CITIES SHOW POTENTIAL

Higher-tier cities continue to account for the bulk of the market. Xueda, which has learning centres in 73 cities, derived 39% of its net income in 2Q13 from five major cities (Beijing, Shanghai, Wuhan, Xi’an, Tianjin and Guangzhou). New Oriental, the nation’s largest tutoring firm by market value, relies on just four cities for more than 40% of its revenue, even though it has set up shop in 50 cities.

However, as the tutoring market in major cities becomes increasingly crowded, many firms are eyeing inland areas for future growth.

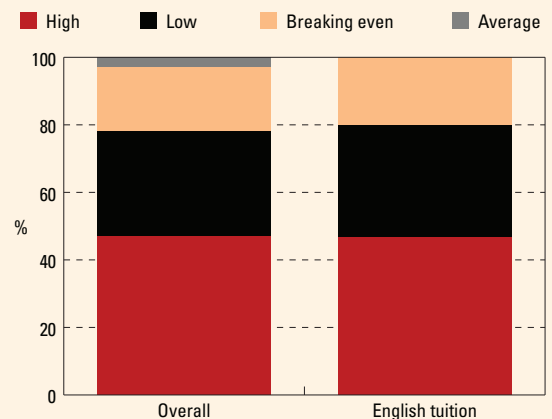
Our survey revealed the relatively underdeveloped nature of the tutoring market in lower-tier cities. Just 55% of parents we spoke to in third-tier cities said they had enrolled their children into private tutoring, compared with 63% in second-tier and 67% in first-tier cities, respectively. Parents in lower-tier cities also spend less on their child’s private education than their higher-tier-city peers. Our survey found that an average family in first-tier cities spends Rmb13,586 on their children’s tutoring. That compared with Rmb11,437 and Rmb8,667, respectively, in second- and third-tier cities.

The situation is starting to change, however,

as tutoring firms expand into the hinterland and local parents are able to afford to pay for their children’s after-school mentoring. In less than five years, Deyang, a third-tier city in the south-western province of Sichuan, has seen six national tutoring chains, including Xueda and Pearson-owned Global Education & Technology, establish schools in the city.

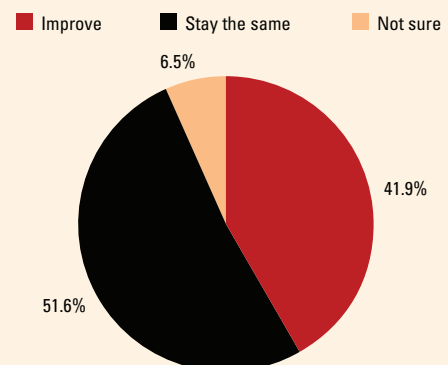
So strong is the competition that Shanghai-based Only Education is offering discounts at its Deyang school to lure students, despite a pick-up in costs. Enshi, a third-tier city in Hubei province, now has five English tutoring schools, all of which have foreign teachers. In Longfeng, a township about 40 miles from downtown Enshi, local residents spoke excitedly about a small, independent English school staffed by a foreign tutor. Since the student population in third-tier cities is about twice that in first- and second-tier cities combined, Chinese private tutorial firms have plenty of room to expand their presence. ●

### 1. How would you classify your school’s profit margins?



Source: China Confidential

### 2. How do you expect your school’s profit margins next year to compare with this year?



Source: China Confidential