

# CHINA'S JUNIOR ENGLISH TRAINING

Struggling To Go Virtual



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The COVID-19 epidemic has greatly disrupted parents' arrangements for their children's further study. In China, while after-school tutoring courses have moved online, the operations of English learning centers have been suspended, IELTS and TOEFL tests have been halted, and attending winter transfer programs at overseas schools have been made impossible. On the whole, we estimate that China's private education industry will suffer negative growth in 2020. The training businesses segment, in particular, will suffer a serious economic blow.

The junior English language training (JELT) segment, which mainly targets teaching children aged three to nine, accounts for a hefty market share of the training businesses pie. However, in the short term, offline learning centers have been severely hit by the epidemic. In terms of admissions, word-of-mouth and other offline channels are very important for acquiring new students. However, school suspensions and social distancing have severely curtailed these avenues for new business, leading to lackluster student-enrolment numbers in the first half of 2020. Moreover, the move to shift offline courses online on a temporary basis was not well received by students or their parents, leading to some students withdrawing from the courses and their parents asking for refunds for the winter and spring semesters.

China's JELT segment is a highly competitive landscape. With many scattered players over the last decade, the segment has not seen significant industry consolidation as yet. So will the short-term impact of the COVID-19 outbreak help accelerate the emergence of new market leaders?

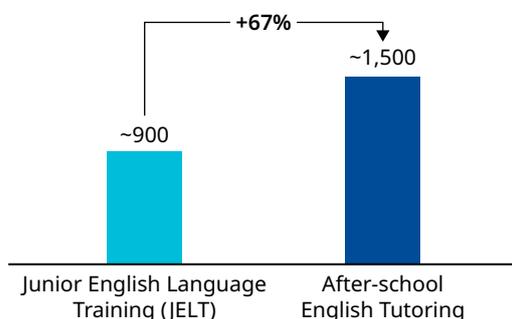
## JELT MARKET SPURRED BY SUPPLY-DRIVEN GROWTH

According to Oliver Wyman, the broader English language training market for learners aged three to 18 reached RMB 90 billion in 2019, achieving a compound annual growth rate of about 40 percent over the past four years. Different from the after-school English tutoring market, which has been developed for 20 years now, China's JELT segment has a lower penetration rate, a higher proportion of younger students, and a higher average selling price per customer.

### Exhibit 1. Junior English Language Training Market

#### Market size

2019, unit: 100M RMB



Source: Oliver Wyman analysis

#### Characteristics of the JELT market

##### High price per customer

The average cost per hour in JELT doubles that in after-school English tutoring

##### High proportion of low-age students

80 percent of students in the JELT market are three to nine years old; students in after-school tutoring are mostly six to 18 years old

##### Low penetration rate

The penetration rate of JELT in target student population is around 30 percent lower than that of after-school English tutoring

In the past few years, the JELT market has grown mainly due to the increase in the number of students and the higher penetration rate (in terms of the proportion of students engaged in English learning against the total number of learners aged three to 18). While parents have been increasingly aware of the importance of improving their children's English capabilities, JELT suppliers have also further developed their teaching ability and penetrated deeper into lower-tier cities. The average spending per student has also increased slightly in the past few years. However, since the average selling price had already been high, we have not observed any significant changes in terms of consumption trends.

The overall environment in China remains favorable, even though situations can vary greatly from one city to the next, particularly across different tiers. The penetration rate in first-tier cities, such as Beijing, has reached about 30 percent, but it is less than 2 percent in the vast number of China's lower-tier cities. While this is partly due to lower spending power and the lack of awareness due to lower participation levels, the main reason for the disparity is the big difference that exists in terms of both the number of education suppliers and the quality of education they provide.

## **STILL VIEWED AS NON-ESSENTIAL**

We believe that although the importance of English training has increased in recent years, it is still viewed as a non-essential need. Most parents tend to remove these extra learning classes from their children's schedules if they feel it is hard to strike a good balance, in terms of expenditure and the time spent, between this type of quality-oriented after-school education and the exam-oriented school education that is essential for their children. This is easily reflected in the JELT segment's slumping retention rates of students in Grades 1 to 4.

Currently, about 90 percent of the income in the JELT market comes from offline classes. Moreover, the offline market's competitive landscape is rather scattered with a lot of players, with little evidence of aggressive leaders in the space. Most leading brands rely too much on franchising, have weak self-support and expansion capabilities, and are conservative about exploring online product solutions. As a result, instead of seizing opportunities in a supply-driven fast-growing market in the past three to five years, they have ceded market share to other types of players.

Online JELT models, especially one-on-one products, have earned a fair share of the market through aggressive customer acquisition approaches. However, the quality of their customers/leads remains weak/limited. Nearly half of the students who use online JELT models are also engaged in offline learning centers, and most of them are younger students in more developed areas. Online teaching providers need to expand into lower-tier cities, improve product diversification, and attract students from different age groups in order to realize growth and reduce customer acquisition costs. Otherwise, their existing pain points cannot be resolved and may directly affect their future survival. An AI-driven light teaching model is also catching up

quickly thanks to its supplementary nature and low cost per customer. However, as it continues to evolve towards other online models, it will also likely encounter similar problems that online one-on-one education institutions are facing in terms of transformation and expansion.

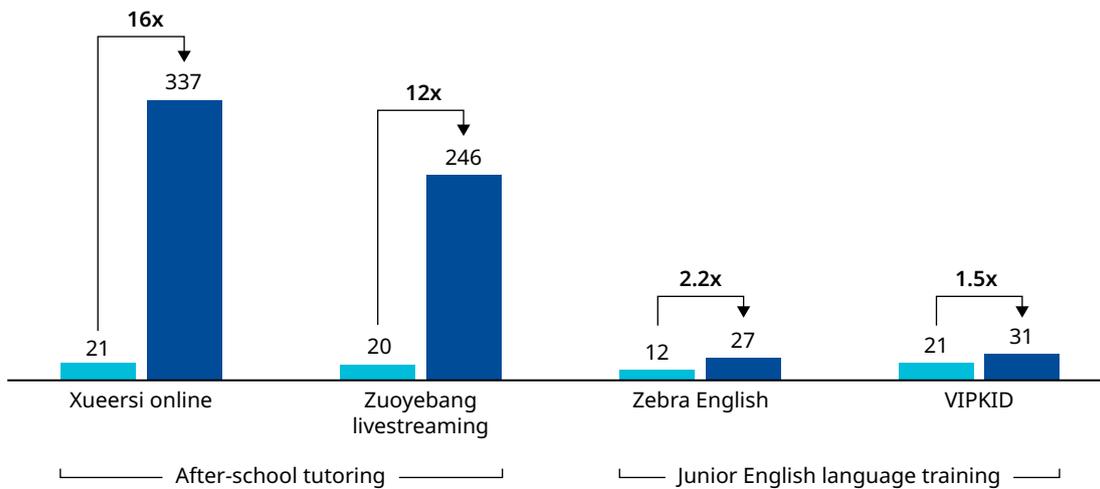
## OFFLINE EXPECTED TO STILL OUTWEIGH ONLINE

During the epidemic, online JELT businesses launched a lot of marketing campaigns, but they were less successful in getting new business compared with after-school tutoring institutions. This was mainly due to the JELT courses being viewed as non-essential, and the courses' weak online-friendly characteristics due to the younger age of the main target users.

Take the number of daily active users of various training apps as an example. After the epidemic broke out, the number of users of some after-school tutoring apps shot up by more than 10 times, while the number of users of youth English learning apps only doubled or tripled.

**Exhibit 2. Numbers of daily active users of apps by leading after-school tutoring organizations and English language training providers**

2020/01–2020/02, unit: 10,000



■ Before the epidemic in 2020      ■ Peak during the outbreak of the epidemic

Source: QuestMobile, Oliver Wyman analysis

We expect that the main model of English training for younger children and teenagers will remain offline after the epidemic is over. With regard to how to enhance coverage in core cities and penetrate into new ones, larger offline institutions in China have already made attempts to combine online and offline teaching, together with a dual-teacher model.

On the other hand, as the epidemic will likely overwhelm some small and medium-sized institutions, the environment is ripe for market integration, and leading players will probably actively pursue acquisition and merger opportunities to expand their market share this year.

## **AGGRESSIVE LEADERS REQUIRED**

In the long run, we expect the JELT market to maintain considerable growth, with a compound annual growth rate of about 20 percent over the next five years.

The market growth will continue to be driven by the increase in penetration rates, especially in provincial capitals and other similarly developed areas, where we expect the penetration rates to approach those seen in first-tier cities. In terms of the average spending per customer, if the product itself cannot achieve a breakthrough, the demand for high-end English training will be squeezed by the downturn in the economy and any associated policy adjustments. English training centers with annual tuition fees of more than RMB 20,000 will face growing pressure in luring and retaining students. With regard to the market, the growth of the average spending per student will slow down further.

Compared to the after-school tutoring market, leading institutions in the JELT market have not yet formed high entry barriers. As such, in recent years, new players have been emerging with significant growth rates. In the early part of the past decade, the English training market thrived and was not subject to policy intervention. However, in recent years, competition has intensified, and policy adjustment has definitely had an impact on the market. Only players who take the initiative to strengthen their organizational and operational capabilities to support high-quality rapid expansion can have the best chance to transform themselves into truly national players and industry giants.

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