The Ultimate Consumer Good: Education Trends in China

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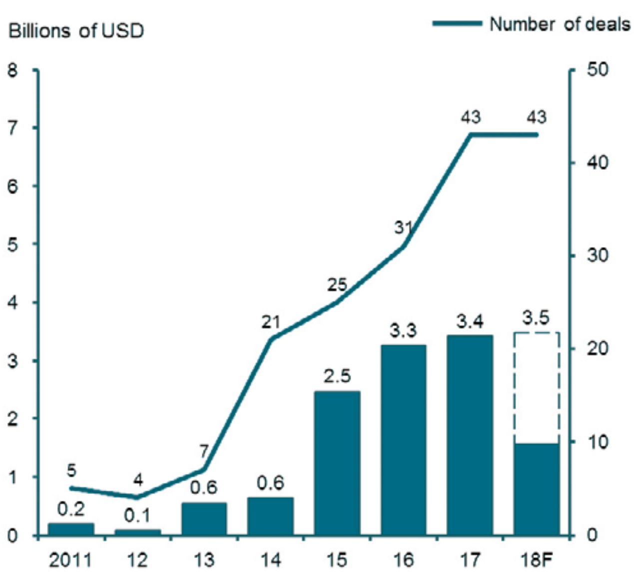
Chinese private education is improving in quality and availability, driven by an increasingly affluent, urban, and cosmopolitan population. Choosy Chinese education consumers are advantage seeking, premium preferring and internationally minded. How should investors and operators respond? L.E.K. Consulting Global Education Practice partner Anip Sharma and senior manager Maryanna Abdo investigate.

An Education Investment "Frenzy"

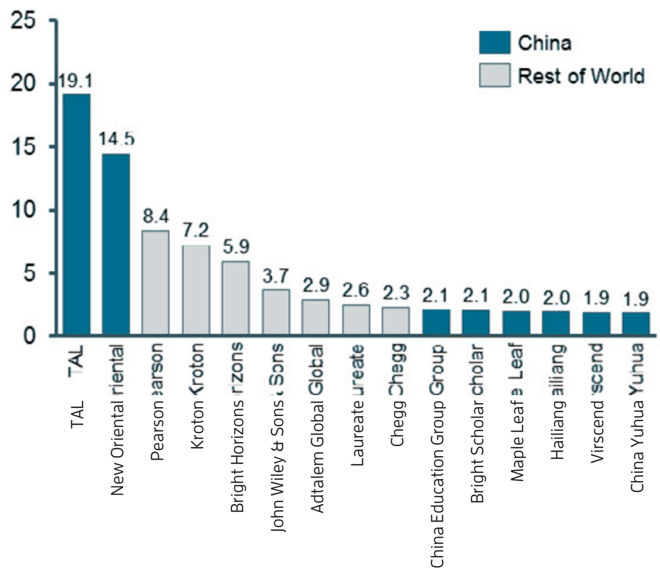
China's private education market is large and growing quickly, at $260bn (RMB1.6trillion) and set to grow at 9% year-on-year until 2020. It is also underpenetrated versus other markets; if it had the same relative size as the U.S., it would be at least $500bn. Moreover, China's education landscape has been rapidly consolidating and maturing within the last 5-10 years, spurring what Education Investor called a "frenzy" of investment activity. There are 40+ deals projected for 2018 valued at a total of $3.5bn.

Total value of education deals in China (2011-18F)



The world's two largest listed education companies, TAL and New Oriental, are Chinese, and eight of the world's 15 largest listed education companies are now Chinese. Five years ago, only two Chinese companies were among this group.

Market capitalization of 15 largest listed education companies (2018)



The Ultimate Consumer Good

Across the world, education has moved from a niche to mainstream investment theme, but in China, with its brand-conscious, aspirational consumers, education is the ultimate consumer good.

Nearly 9% of Chinese household spending is on education, compared to approximately 4% for other emerging markets – despite the fact that Chinese have one or two fewer children and that public education is free. There are three distinctive demand characteristics for Chinese consumers of education:

1. **Advantage Seeking:** The Chinese education sector is highly competitive, with 9.4m sitting each year for the gaokao and C9 universities selecting as few as one in 50,000. Parents will spend to get an edge, generating hyper-competition from pre-primary school.

2. **Internationally Minded:** Chinese are the largest cohort of international students, with 500k initiating international study each year. The hunger for Transnational Education (TNE) continues to grow, at some 5% per year.

3. **Premium Preferring:** Chinese consumers have a strong preference for premium branded goods. While this is well-established in the global premium luxury segment, a preference for premium also permeates wider consumer behavior: approximately 50% report they will always buy the most expensive product across categories.

These factors are driving the emergence of a hyper-consumerization of education in China, where what has traditionally been seen only as a social good is now also a consumer good.

Trends and Disruptions in Chinese Education

Against this backdrop, investors and operators keen to expand in China should be aware of three key trends.

Trend 1 – Brands Do Battle

In China, as elsewhere, about 75% of parents choose education based on brand-related factors. Chinese education companies trade on prestige and legacy to drive customer perception by "borrowing" brands. Legacy brands, particularly where they use established foreign names, have an advantage. Investors must therefore align themselves with premium and international brands in order to secure a foothold or pick segments where offerings are distinctive or unique to China and leverage home-grown brands.

Trend 2 – The Niche Goes Mainstream

Beyond focusing on building brand, education companies are taking advantage of new opportunities. As the education ecosystem rapidly matures, what were once niche groups of consumers are now viable segments for core business strategy. For example, ELT is already a well-established, approximately $12 billion sector in China growing at 15%. Where the sector was once limited to in-person tutoring and classes, there is now a profusion of offerings catering to a variety of learner types. It is likely that other niches will themselves become viable segments, for example in further diversification of TNE, differentiated K-12 offerings, and After-school Enrichment.

Trend 3 – Online Cracks Open China

Tier 1 and Tier 2 cities pull in talent and money, but 1.1 billion Chinese live outside these cities, presenting an addressable market of affluent and middle class consumers of 165m. They have aspirations for top-tier university places, international education, and English proficiency, but limited access to private offerings. Education technology is driving access, with these regions growing faster than Tier 1 and Tier 2 cities. For education companies in mass market products, a pan-China and online strategy is essential for rapidly gaining scale beyond big cities.

Conclusion

The technology sector in China is said to have a 9-9-6 working culture: 9:00 am to 9:00 pm, 6 days a week–a notion that captures the dynamism and growth potential of the market. Given the opportunity in China's education sector, its operators and investors may wish to adopt a similar approach.

Source:
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