Ambient Insight

The 2015-2020 China Digital English Language Learning Market

Analysis by: *Sam S. Adkins, Chief Researcher*

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Over 180 suppliers operating in China are cited in this report to help international suppliers identify local partners, distributors, and resellers.

Abstract

The aggregate growth rate for digital English language learning products across six buying segments in China is a modest 2.8%. Revenues reached $938.6 million in 2015 and will climb to $1.0 billion by 2020. A market with high revenues remains lucrative even with a modest growth rate. China is the largest digital English language learning buying country ***in the world***, followed by the US, South Korea, and Japan.

The government-operated PreK-12 segment was the largest buyer in the 2015 market, but consumers will be outspending the PreK-12 segment by 2020. The consumer segment has the highest growth rate in the country at 8.2%.

Aggregate growth has slowed over the last few years due to significant commoditization pressures, the fragmentation of the supply chain, and government pricing controls in the schools. Suppliers continue to bring products and services to the market at a rapid pace. Established traditional language education providers are launching new online businesses and startups are proliferating as well. Private investment is flowing to digital English language learning startups.

In many segments, suppliers are now competing solely on price, even offering products, and tutoring for free in concerted efforts to grow their installed user bases in a short period of time.

As of 2016, parents with children in private schools were responsible for paying for textbooks used in the compulsory grades up to the ninth grade. In 2017, the government will pay for all textbooks used in the private schools; the government already purchases the textbooks for the public schools. The government will essentially be the only instructional content buyer for schools in China by 2017 and they will exert firm control over prices.

According to results published in November 2013 from a survey on the demand for English in China (conducted by the 21st Century Education Research Institute in Beijing), 70% of Chinese parents want their children to learn English. "Although 90% of the parents believe that learning Chinese and traditional culture is more important than English, their children still pay more attention to the study of English than Chinese." One interesting result from the survey was the age children are introduced to English. Just over 47% of children were between the ages of three and six when they were first introduced to English. Out of all PreK-12 students taking English, the largest cohort was three-year old children at 16.2%.

There are over 50,000 English language schools in China and over 90% are private institutes (companies). They are heavily concentrated in the economically developed areas such as Beijing, Shanghai, Guangzhou, Chengdu, Shenzhen, Chongqing, and Wuhan. They all tend to use digital language learning labs and are becoming a significant reseller channel for commercial digital English language learning products.

EF (Education First) estimates the number of English online learners in China will grow from 67.2 million in 2013 to 120 million by 2017. "Private English training companies are also expanding their reach into second-tier cities and remote provinces."

Ambient Insight expends a great deal of effort to identify domestic and international suppliers operating in China, the buying segments they serve, the type of digital products they develop, and the prices they charge for their products. This provides actionable data for suppliers that intend to enter market on potential partners and gives them a good idea of the prices that the market will bear in specific segments.

The Big Internet Brands Shake Up the Market in China

Baidu, Alibaba, and Tencent are the largest Internet companies in China and they all entered the commercial eLearning and Mobile Learning markets in 2013 and 2014. Several other leading Internet companies entered the commercial learning technology market in the last two years including NetEase, Sohu, Renren, Kaixin, Jiayuan, Sina Weibo, YY, NetDragon Websoft, Youku Tudou, and Kingsoft. All of their online learning businesses at launch were web-based; all of them are now adding mobile features.

What is interesting is the diversity of the Internet companies. Baidu is the largest search engine in China. Alibaba and Tencent are eRetailers. Jiayuan is a dating site, RenRen and Kaixin are social networks, NetDragon is a game developer, Sohu is an online media and gaming company, NetEase is an IT giant, YY is a Skype-like platform, Sina Weibo is a media company with a Twitter-like product, Youku Tudou is an online video provider, and Kingsoft is a productivity software company.

It is interesting that the Internet giants continue to invest in third-party online education companies despite the fact that they now have branded products on the market.

To put this unusual ecosystem in perspective, imagine if Google, Google's YouTube, Yahoo, eBay, Facebook, Microsoft, Microsoft's Skype, Gameloft, Twitter, IBM, Amazon, and eHarmony all entered the commercial learning technology market ***at the same time***.

Tencent, the largest online mass media company in China, started offering online courses in late 2013. In April 2014, they launched Tencent Classroom "an e-learning center that offers exam-oriented courses in language study, skill training and certification, as well as a few lessons for primary and high school students." By August 2014, they had attracted over 34 million users.

New Oriental and Tencent announced a joint venture called Weixue Mingri (Beijing WeLearn Future Network Technology) in August 2014 to develop mobile English language learning products. Their first product launched in December 2014. New Oriental CEO stated in the press that, "Thanks to our joint efforts with Tencent over the past four months, we have successfully launched the first mobile learning product that will transform how students in China learn English. Working together, we believe we can create more best-in-class mobile learning solutions for students in China."

YY, the video-based social network, launched their online learning platform called 100.com in February 2014. The new learning platform is focused on digital English language learning. YY released the iOS and Android mobile versions of the learning platform in September 2014. "Like the website, the mobile app is able to stream live classes during which students can interact with teachers."

Primary Catalysts in China

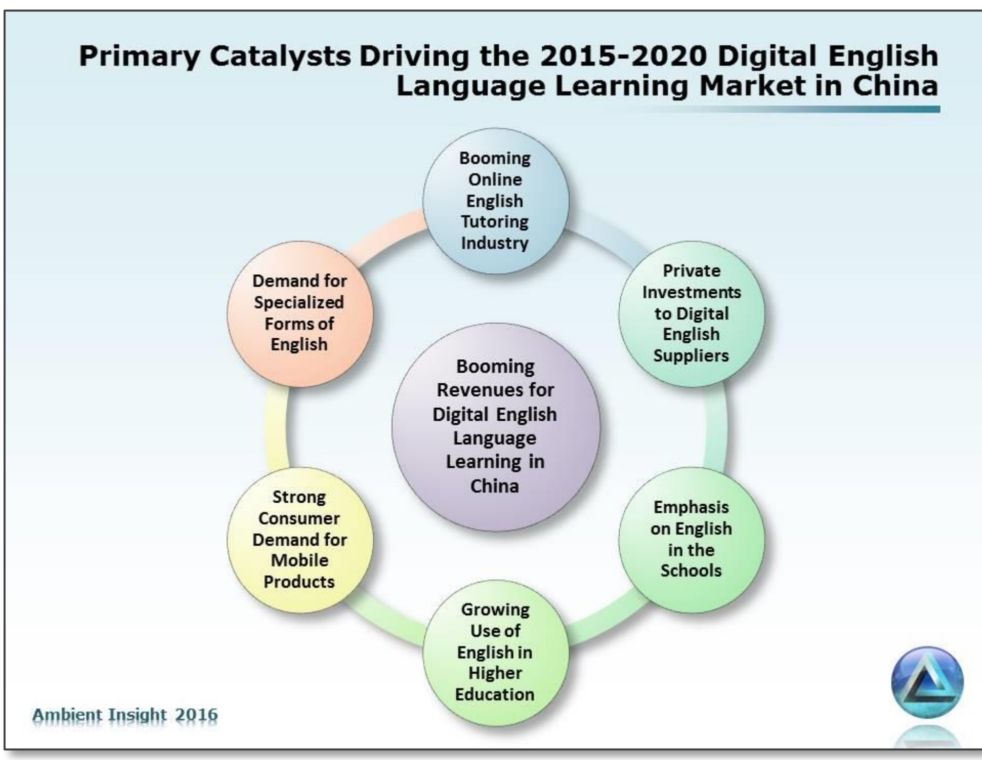
There are six major catalysts driving the current digital English language learning market in China:

- A booming online English tutoring industry
- Dramatic increase in private investments made to digital English companies
- Emphasis on digital English in the schools
- Growing use of English in the higher education segment
- Strong consumer demand for mobile digital English language learning apps and Mobile Learning value-added services (VAS)
- High demand for specialized types of English

"China boasts the largest broadband subscriber base in the world, with the majority of users accessing the Internet through mobile devices" (CINNIC).

China crossed the one billion mobile penetration rate threshold in 2012. Over 350 million smartphones were sold in China in 2015. Just under 400 million smartphones are projected to be sold in China in 2016. China now accounts for over 30% of all smartphones sold in the world.

Figure 1 - Primary Catalysts Driving the 2015-2020 Digital English Language Learning Market in China



In January 2016, the China Internet Network Information Center (CINNIC), a government Internet administration agency, reported that 50.3% (688 million people) had access to the Internet in China and 90% of that access was via a mobile device.

CINNIC reported that ***over 200 million people in China use their phones on a monthly basis to access Mobile Learning content in China***.

Language learning is in high demand in China. There are 50,000 English language schools in China. McGraw-Hill, Houghton Mifflin Harcourt, Singapore-based Popular Holdings, South Korea-based Chungdahm Learning, France-based Hachette Livre (Lagardère), and Japan-based Benesse (parent company of Berlitz), Macmillan, Pearson, Cambridge University Press, and Oxford University Press have very large installed bases in the private school industry.

In January 2016, New Oriental reported that "our pure online education platform, Koolearn.com, recorded revenue growth of over 19% year-over-year in the second quarter, with registered users up by over 192% and paid users up by over 215%."

Booming Online English Tutoring Industry

In May 2014, Oxford University Press (UOP) announced a distribution agreement with Hujiang, an online private language school with over 100 million registered users. The first product being sold on the platform is an online course called *Hujiang International Business English*, which is an adaptation of UOP's *Business Result* product.

TutorGroup claims to be China's largest private online English language learning provider. They offer three digital English language learning products, "*TutorABC* and *VIPABC* for English-language learning for students in the greater China region, and *TutorABC Jr*. for English language learning students between the ages of 8 and 18." In October 2013, they reported that their sales grew by 300% compared to the previous year. They garnered an impressive $100 million in investment (from Alibaba) in early 2014 and a breathtaking $200 million in funding in November 2015.

"TutorGroup forecasts the adult English language-learning segment alone within China is growing at 25% annually, and TutorGroup expects sales to experience a triple-digit annual growth rate in the years to come."

New Oriental Education claims to be the largest provider of "private educational services" in China with a catalog of courses including language learning courses. In 2013, they reported that their revenues for "online children's English classes are rising 35% a year." They had over 840,000 enrolled students of all ages as of early 2016 and stated that "while ***English is by far the most popular language we teach***, we also provide courses in German, Japanese, French, Korean, Italian and Spanish."

In February 2014, YY launched an educational portal called 100.com, "which currently focuses on English tests for study abroad, such as IELTS and TOFEL." In December 2014, they announced that they would build "an online school for English learning." 100.com's mobile app launched earlier in September 2014.

Baidu acquired an online learning company called Chuanke and merged it with their own Duxuetang online class business. In December 2015, Baidu announced a dedicated educational business unit with Baidu Chuanke as the core platform. "Baidu Chuanke's major potential users are adults between 18 years old and 30 years old who can be college students or company employees."

A Chinese online tutoring provider called Myoshi Network obtained $11.5 million in private investment in March 2016. They currently have over 5,000 registered students and expect to generate $9 million in revenue in 2016. Their target is to have at least 20,000 students by the end of the year. Their long-term goal is to reach 2.5 million students.

Dramatic Increase in Private Investments Made to Digital English Companies

An unprecedented amount of venture capital is now flowing to consumer-facing online education companies in China. This cash infusion is allowing suppliers to expand at an accelerated rate and is a direct catalyst for the booming online tutoring industry.

Domestic firms serving the consumer segment are now gaining large numbers of visitors and attracting large amounts of private investment.

- One of the largest China-based English language learning portals is 17Zuoye. They obtained $2 million in venture funding in 2013 and another $120 million in February 2015.

- A company called Duobei.com offers a range of online courses including English language learning courses. They garnered just over $3 million in funding in 2013.

- Another domestic online English language learning provider is 91Waijiao (now owned by 51Talk). They obtained $4 million in funding in 2013 from NetEase.

> In just the month of January 2016 alone, over $200 million was invested in eleven Chinese learning technology companies, including $75 million given to 1Smart Education, an online tutoring firm.

- An online company called Kuailexue obtained $5 million in funding in March 2014. "The company's products include an English test practice database offering more than 650,000 practice questions, with questions updated every month, as well as a Kuailexue mobile education app."

- Qualcomm invested over $10 million in a Chinese company called ALO7 in 2013, which offers English language learning content for children and ***had over 10 million registered users at the time***.

- A company called 51Talk claims to be the "fastest growing ESL provider in China." They offer live online classes with teachers based in the Philippines. They obtained $13 million in funding in 2013 and an additional $55 million in October 2014. They acquired their rival online English language learning company 91Waijiao in January 2015.

- A startup called Xiaozhan Jiaoyu obtained $29 million in March 2015 and focuses on standardized tests for Chinese students who want to attend English-speaking schools outside the country. Their test prep content includes online courses for the SAT, ACT, GRE, TOEFL, and IELTS exams. They sell live online classes and their TOEFL course is the most popular with over 50,000 students.

- Shanghai-based TutorGroup obtained $15 million in investment in April 2012, $100 million in 2014 from Internet giant Alibaba, and another $200 million in November 2015.

- Another consumer-facing Chinese company, Hujiang.com, claims to be the largest online English language provider in China. They garnered $20 million in venture capital in 2013 and a breathtaking $257 million in two rounds in 2015, including $100 million led by Internet giant Baidu.

The trend continues unabated in 2016: two online tutoring firms called Gifted Education and Zhiyou Education obtained $9 million and $9.2 million, respectively, in funding in January 2016. Another online tutoring firm called 1Smart Education garnered $75 million in January 2016, and the Internet giant Tencent invested $50.4 million in New Oriental's Xun Cheng (Koolearn) division in February 2016. Koolearn's top selling courses are English courses.

A Philippines-based firm called ABC360 garnered $15.3 million in March 2016. They specialize in providing live online English tutoring to students in China. They generate most of their revenues in China.

Emphasis on Digital English in the Schools

TAL Education Group is a major PreK-12 tutoring company and claims their Eduu.com portal "is the largest online education community in China," and is the gateway to nine online learning sites including one dedicated to gaokao test prep.

In July 2014, the Hong Kong Education City Limited (HKECL) agency purchased the digital learning development platform from Poland-based Sanoma Young Digital Planet. " It is a fourth stage of phased approach towards introducing modern technologies in the K-12 schools, preceded by heavy investment in infrastructure, delivery of centralized systems with educational resources as well as assessment data banks. The aim is to provide eLearning to the 800,000 students in K-12 education in Hong Kong in 3 languages: English, Mandarin and Cantonese."

The Chinese government reduced the points for English in the annual National College Entrance Exams called the gaokao from 150 to 100 starting in 2016. Under the new policy, the English portion of the gaokao will be removed completely by 2020 being replaced by two substitute exams a year just for English. The students will be able to use the highest score between the two exams on their college applications.

This will have a negligible impact on teaching English in the Chinese high schools in the short term since the universities have not changed their English admission requirements, but it could affect consumer spending on private test prep tutoring. It is likely to be a catalyst for digital English in the consumer segment as parents opt for cheaper test prep products.

In March 2014, Onwards Learning signed distribution agreement with eol.cn (EOL), a national education portal backed by the Chinese Ministry of Education. EOL will distribute Onwards Learning's digital English language learning content on the portal. "EOL serves the online educational information and advisory needs of students, parents, teachers and the country's education service providers, achieving average daily unique page views of over 45 million."

Digital language learning is even in high demand in the preschools. In March 2012, McGraw-Hill announced a ten-year licensing deal with Beijing-based Oriental BabyCare. By mid-2014, Oriental BabyCare had over 570 preschools in the country. "Through the partnership, Chinese children ages 2-6 will for the first time have access to McGraw-Hill Education's digital learning solutions."

There is a thriving private English language school industry in China focused on preschool children. Disney English and New Oriental are the market leaders.

In October 2014, US-based Kids 'R' Kids, a preschool chain with 157 preschools in the US, announced their expansion into China. Their first two schools opened in Shanghai and Beijing in September 2015.

Kids 'R' Kids makes extensive use of learning technology in the classrooms and provides individual Computer Learning Centers in every school, which are equipped with "the latest multi-touch screen technology and educational software for development in a safe, child-directed learning environment." Kids 'R' Kids licenses their digital content from ABCmouse.

Growing Use of English in the Higher Education Segment

English is increasingly becoming a major language of instruction in Chinese higher education. In 2001, the Ministry of Education issued a "soft mandate" that asked universities to start offering bilingual classes in English and Chinese. The government does not rigorously enforce the mandate, although they specified that 5-10% of all undergraduate classes had to be taught entirely in English by 2004 and a minimum of 20% of classes starting in 2005. The Ministry renewed the soft mandate in 2007.

In higher education institutions, English is compulsory. An English proficiency test, called the College English Test (CET) is administered to college students twice a year. It is a standardized test developed by the Ministry of Education. Over 6 million students take the CET each year and the government estimates that students spend over $150 million a year on test prep for the CET.

As of 2011, employers made high scores in the CET 4 and 6 requirements for employment In the book "The Lowdown on China's Higher Education" (first published in 2011) the authors wrote that in China "CET 4 and CET 6 National English examinations have become the symbol of English proficiency in reading and writing."

Cengage Learning sells a test prep app for the CET in the Apple store in China under the National Geographic brand. New Oriental and Tencent's new joint venture focuses on the CET. "Leveraging New Oriental's rich resources in terms of content and educational research as well as Tencent's technological expertise and online penetration, uDA will help college students improve their study experience and efficiency through its three-pronged approach, namely Question Scanner, Smart Push Exercises, and Interactive Tutoring."

Chinese students also take standardized English exams needed to qualify for entry into foreign universities. There is a strong demand for online test prep (both live tutoring and self-paced content) for these exams. In February 2014, a new company called Chuangxin Huoban was launched in Beijing by a group of ex-employees of New Oriental. Their commercial product is a site called Smartstudy.com that sells "online study materials to Chinese users preparing for English-language exams such as the TOEFL, IELTS, SAT, GRE, and GMAT. The new site offers a large variety of audio lessons, but costs only 10-20% of the price of similar offline test-prep services."

Australia's NSW AMES, an Australian government body, sells an online product called EnglishatAMES, which they distribute through the Distance Learning School of ZhengZhou University in Henan Province. The Distance Learning School has over 40,000 students across China.

Rosetta Stone's Tell Me More is a major supplier of English language learning apps in the Chinese higher education segment.

Ireland-based Onwards Learning has massive distribution agreements in China with government-backed educational portals and vocational schools. Their LearnOnEnglish (LoE) launched in China in November 2013. The company aggregates mobile content from third-party suppliers.

LoE distribution partners so far include the Chinese Vocational Adult Education (CVAE) Network, the Chinese Educational Research NETwork (CERNET), the national education Internet backbone, the Inner Mongolia Vocational Institute, CCCC and EOL.

Onwards Learning struck a deal in March 2013 with the Ministry of Education's Central Institute for Vocational and Technical Education (CIVTE) to provide digital English language learning content to a potential user base of 30 million vocational students. Onwards and CIVTE co-develop an "online English language teaching 'shopping mall' which promotes cooperation in the field of distance education in China and Ireland."

Strong Consumer Demand for Mobile English Language Learning Products

In 2015, consumers accounted for 54.8% of all spending on Mobile Learning products in China. In 2020, consumers will account for a staggering 66.3% of all spending. The growth rate for Mobile Learning in the consumer segment in China is 19.7% and revenues will more than double by 2020. The growth rate for digital English language learning products in the consumer segment in China is 8.2%.

A Beijing company called The Commercial Press launched their first mobile dictionaries for the Apple store in February 2014. Their Chinese-English dictionary was the number one top selling education app in December 2014; it had dropped to fifth place by January 2016.

The top mobile English language learning provider in China is Shanghai-based Liulishuo, which has attracted over 15 million users since they launched in 2012. They launched their latest app in July 2014 in a content partnership with Cambridge University Press.

In March 2014, New Oriental's CEO stated in the press that "80 percent of New Oriental's trainees are kids between four and 10 years of age." New Oriental has an online learning portal called Koolearn and has been porting content to mobile formats. Their Donut's English app for young children consistently ranks in the top ten educational apps in the Apple store in China.

By the end of 2016, China had thirteen operational Mobile Learning VAS products on the market.

- A company called Muuzii launched their English language Mobile Learning VAS for young children in China in April 2009. They now have over 2.5 million registered users and they are the largest Mobile Learning VAS supplier in China so far. Muuzii is available on the popular social chat platform WeChat in China, which had over 438 million users by mid-2014.

- China Mobile has a Mobile Learning VAS called English World. China Mobile had the world's largest subscriber base in September 2014 at over 800 million users.

- In February 2012, Canada-based ClevrU Corporation signed agreement with China's top two carriers, China Telecom and China Unicom, to sell "English as a second language lessons and open-class content from Ivy League North America universities." The two telecoms combined have a subscriber base of 630 million people. ClevrU also has a deal with Renren, "the Facebook of China", which has over 170 million users.

- The Hong Kong carrier 3 Hong Kong has a Mobile Learning VAS for English language learning. The content is from UK-based Linguaphone and the product is called allTalk English. The subscription is relatively expensive at $98 a month, which is high for a Mobile Learning VAS in China.

- The latest Mobile Learning VAS was launched by ZTE in March 2014. It is called ZTEd and unique in that it is a turnkey cloud-based Mobile Learning platform that includes classroom management, content development tools, and Mobile Learning content. "It integrates the education cloud platform, interactive class system, micro video courseware production toolkit and mobile learning applications."

Mobile Learning VAS products are also sold to the government-operated school systems. China Mobile had over 40 million paid subscribers to their PreK-12 education platform by January 2016. "Established in 2003, China Mobile's K-12 educational platform is the world's largest subscription-based communication platform used mainly by teachers, parents, and schools throughout many provinces in China."

In August 2014, the language learning app developer Duolingo reported that their app, which launched in China's Apple store in April 2014

Beijing Peapad Education and Technology, "targets parents of young children with its small, green, talking pea character, which is controlled through a parent's smartphone and uses songs and games to teach English."

"surpassed 1.5 million downloads after its first week." In July 2014, they released an Android version, which had 350,000 downloads in the first three days.

In April 2014, New Oriental spun off a new dedicated Mobile Learning company called Leci Network Technology. Their first app is an English language learning app distributed on the Baidu Mobile Assistant, 91 Assistant, and HiMarket app distribution platforms. "While the app itself will be free, Leci will charge fees for short online classes offered through the app."

High Demand for Specialized Types of English

The demand for specialized forms of English known as vocational English is also a catalyst for the China digital English language learning market. These products are purchased by corporate buyers, government agencies, academic segments, and individuals.

Specialized vocational (sometimes called occupational English or English for specific purposes) English types include aviation, business (sometimes called workplace English), hospitality, finance, law, medical, transportation, tourism, oil & gas, information technology, and engineering English.

Some suppliers offer highly-specialized forms of online English language learning such as English for accounting, chemistry, architecture, human resources, real estate, sales, and logistics. There is even a form of English learning called automotive English.

There is a very specialized form of English known as academic English (sometimes referred to as English for Academic Purposes, or AEP). Academic English is intended to not only increase proficiency but also designed to teach the cognitive skills required to be successful in English-speaking higher education institutions. It is taught to students attending domestic universities with a high number of English-only programs and taught to students who intend to enroll in English-speaking institutions outside the country.

Tourism English peaked in 2008 at the height of the Olympics in Beijing. The city of Beijing alone had trained over 600,000 employees and public safety personnel. Since then the major tourist cities in China still buy online courses for tourist-related personnel, but at a much more modest level. China will host the 2022 Winter Olympics in Beijing and Zhangjiakou and it is likely that both federal and local agencies will again spend a significant amount of money on English language learning starting about two years prior to the event. It will have little impact on the 2015-2020 market.

In February 2016, the mayor of Zhangjiakou stated in the press that "local personnel and volunteers" will be trained in English prior to the event. There are dozens of global suppliers that specialize in online business English active in China including EF's Englishtown (rebranded as English Live in November 2015), goFLUENT (who now has offices in Japan), inlingua, and GlobalEnglish (owned by Pearson). The mainstream language learning brands like Berlitz, Wall Street English (also owned by Pearson), and the British Council also offer online business English courses.

Hospitality, travel, and tourism-related companies provide their front-line employees with English language learning. English is a primary subject taught in hospitality schools and fluency is mandatory for aviation crews.

Honk Kong is a major domestic hub for online specialized English providers. HKEnglish has two physical language learning schools in Hong Kong and provides live business and academic courses using the Skype platform. ClarityEnglish was founded in Hong Kong. They develop English language learning software and now have customers all over the world including the Civil Service Training and Development Institute and the Education Department in Hong Kong.

China is a member state of the International Civil Aviation Organization (ICAO), which is a UN agency that works with "global industry and aviation organizations to develop international Standards and Recommended Practices (SARPs) which are then used by States when they develop their legally-binding national civil aviation regulations."

ICAO's Aviation English Language Test Service (AELTS) is the world's aviation English certification body and recognizes three tests: the RMIT English Language Test for Aviation (for pilots), the Test of English Language Level for Controllers and Pilots (TELLCAP), and the English Language Proficiency for Aeronautical Communication (ELPAC).

Australia-based RMIT offers their test prep material in both print textbooks and online courses to buyers in China. The TELLCAP and ELPAC are interesting exams that are delivered by a live "examiner" and the exams are essentially conversation-based assessments, which include ad hoc roleplay. The test taker must verbally demonstrate English proficiency during a live interaction with the examiner. These examinations are now often delivered via web conferencing technology.

EF Education First provides aviation English to several companies and organizations in China include Xiamen Airlines, Air China, China Southern, the Beijing Capital Airport, Shanghai Pudong International Airport, and East China Air Traffic Control. "No matter where they are, as long as they can connect to the Internet, learners can log into EF's online school and get access to EF's innovative aviation content, private and group teacher-led lessons, and 24/7 professional teacher support. Training content will include Aviation English and a specially designed course for Cabin Services."

One of the most successful global online aviation English suppliers is US-based DynEd. They have offices in China, South Korea, Japan, Australia, Indonesia, and Mongolia. They have direct agreements with aviation buyers in Cambodia, Vietnam, Mongolia, and China. In China, DynEd's aviation English courses are used by China Airbus, Air China, and BeiHang Flight College.

What You Will Find in This Report

There are two sections in this report: a demand-side analysis and a supply-side analysis. In the demand-side analysis, revenue forecasts are broken out by six buying segments: consumers, federal government agencies, PreK-12 school systems, provincial and municipal government agencies, higher education institutions, and corporations & businesses.

The demand-side analysis includes a revenue breakout for consumers and for the PreK-12 segment by age cohorts. Products for young children are popular in China. Parents and the schools now purchase a significant amount of digital English language learning for children under 17 years old.

The cohort analysis provided in the consumer and PreK-12 sections unveils significant differences between consumer and PreK-12 spending for these age cohorts. In the consumer segment, revenues are spread relatively evenly across the age brackets. In contrast, the revenues in the PreK-12 are concentrated in the higher grades. A breakout by the five age cohorts is provided in the consumer section of this report. A breakout by five grade levels from kindergarten to high school is provided in the PreK-12 section.

The demand-side analysis in this report includes forecasts for five digital English language learning product types.

This report does not include revenues for early childhood literacy products designed for English speaking children. This report only includes revenues for digital English as a Second Language (ESL) products, English for Speakers of Other Languages (ESOL) products, specialized types of English for non-English speaking people, and standardized English proficiency test prep products.

This report does not include the revenues for online delivery of the standardized English proficiency exams, because they are not instructional products, per se. This report does not include products designed for English teachers. For example, the Teaching English to Speakers of Other Languages (TESOL) program is designed to provide instruction on how to teach English, not how to learn it.

A detailed description of Ambient Insight's Evidence-based Research Methodology is included in our research taxonomy.

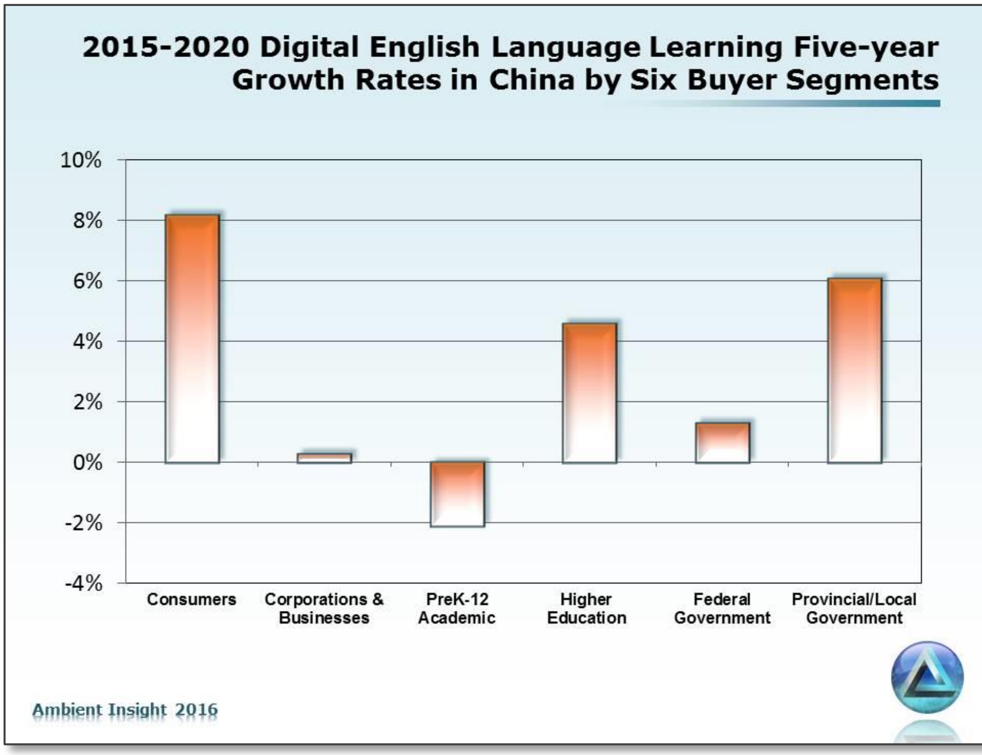
Who are the Buyers?

This report provides revenue forecasts for six buying segments in China: consumers, corporations & businesses, PreK-12 school systems, higher education institutions, federal government agencies, and provincial & municipal government agencies. The only segment with a negative growth rate is the PreK-12 segment, being driven down by the government monopoly on instructional content (for both private and public schools).

There are demographic data available on the buyers of online digital education content in China. In the results of a survey of over 25,000 people in 2014, language learning supplier Hujiang and Internet giant Baidu found that 80% of the people who bought online education content in China were under 30, college educated, and employed in white-collar professions; 59% of the buyers were female. Almost 90% of the respondents said that they bought language learning content.

China has a centralized educational system run by government agencies and they are often direct buyers of academic content. This report identifies the major suppliers doing business with the education ministries. Both offer points of entry for suppliers trying to enter those markets.

Figure 2 - 2015-2020 Digital English Language Learning Five-year Growth Rates in China by Six Buyer Segments



China has administrative entities called direct-controlled municipalities, which are actually governed by the federal government. There are currently four of these municipalities: Beijing, Shanghai, Tianjin, and Chongqing.

Most higher education institutions in China use digital language learning labs. They are particularly interested in academic English, business English, and hospitality English content for the labs. Many develop their own content, but some buy commercial digital English language learning products.

Private language schools and for-profit academic institutions are strong buyers of third-party commercial digital English language learning products. US-based Scholastic operates a franchise of 64 Early English centers in Asia. The centers are for children as young as three years old and make extensive use of interactive whiteboard content. All of the franchises license Scholastic's digital content.

Shanghai-based ALO7 is a virtual world that provides live online English language learning tutoring for young children. They also sell their products to third-party ELT providers. "ALO7 currently supplies digital ELL and ELT materials to many well-known educational chains. Some of ALO7's customers are New Oriental, Only Education, Best-Study Education, Bond Education, and Daqiao Education.

There are 22 provinces, four direct-controlled municipalities, five autonomous regions, and two special administrative regions in China. The growth rates for digital English language learning products in the federal and local/provincial segments are 1.3% and 6.1%, respectively. Yet the spending patterns are quite different.

China's airline industry is dominated by the three government-owned airlines: Air China, China Southern Airlines and China Eastern Airlines. All pilots in China are required by law to pass an aviation English test and flight crews are required to speak basic English. Aviation English is the most significant revenue opportunities for suppliers serving the federal government.

China has administrative entities called direct-controlled municipalities, which are actually governed by the federal government. There are currently four of these municipalities: Beijing, Shanghai, Tianjin, and Chongqing.

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Vocational and adult education is funded by local and provincial governments in China. At the end of 2013, there were 2,882 vocational schools in China. The local and municipal governments invest $2.7 billion a year on adult education. The federal government does buy content for the vocational schools.

In December 2014, China Chuanglian Education Group announced a strategic agreement with online English supplier New Oriental to deliver "online training programmes for professional English examinations to registered users on China Human Resources Training Website. The portal is an online national eLearning site operated by China Chuanglian Education and "provides training services for civil servants, professionals, management executives and the mass society." By the end of November 2014, China Chuanglian Education had 3.2 million registered users and 2.7 million paid users.

The growth rate in the corporate segment is essentially flat at 0.3% despite the demand for business English. The current economic slowdown in the country is having a negative impact in corporate spending in general.

The major suppliers providing online English language learning to corporations and government agency employees are Tell Me More (now owned by Rosetta Stone), DynEd, GlobalEnglish (acquired by Pearson in May 2012), Englishtown (now branded as English Live), and Wall Street English (also owned by Pearson).

What Are They Buying?

The current digital English language learning revenues in China are concentrated in five learning technology product types:

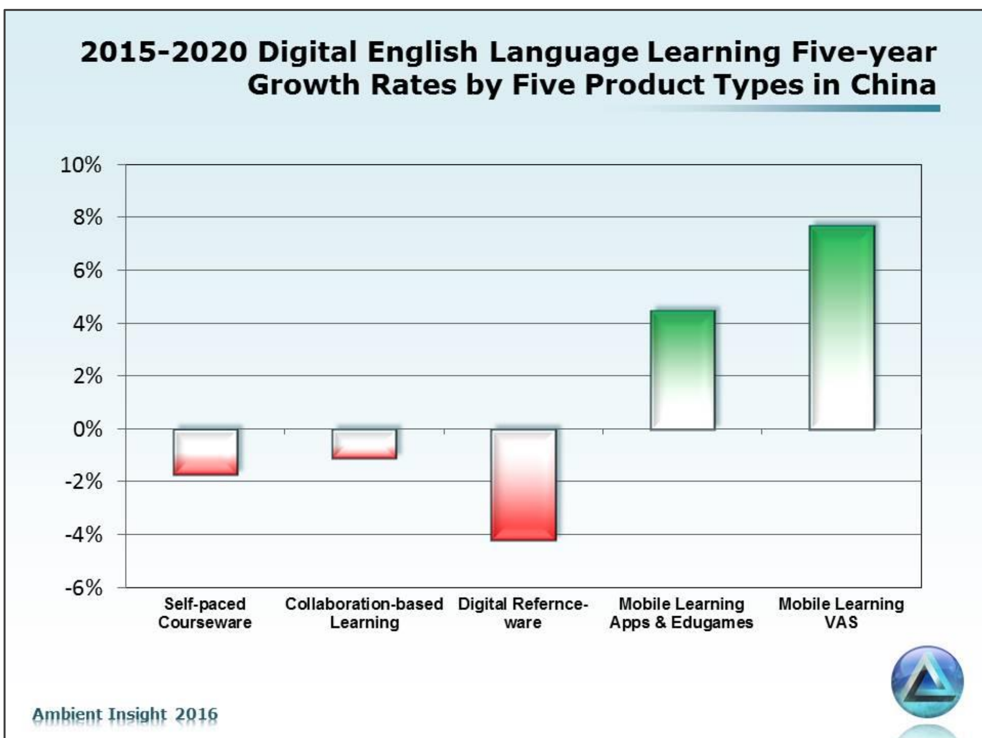
- Retail packaged Self-paced eLearning (off-the-shelf courseware)
- Collaboration-based Learning (live online classes and live online tutoring)
- Digital Reference-ware (eTextbooks, ePhrasebooks, audiobooks, digital videos, test prep, and digital translation dictionaries)
- Mobile Learning apps and edugames
- Mobile Learning VAS

There is a degree of product substitution underway with buyers opting for mobile products over the other product types. This is particularly acute in the consumer segment in China.

This report only includes revenues for digital English language learning content and does not provide revenues for custom development services or language learning lab hardware. There are simulation and game-based products on the market, but simulation-based products tend to be expensive and the game-based products in the region are now mostly mobile, particularly in the mobile-only countries.

Three of the five digital English language learning products in China have negative-to-flat growth rates. This is largely a product substitution trend with buyers opting for mobile products. The growth rates for self-paced and collaboration based products are negative-to-flat at -1.7% and -1.1%, respectively. Digital Reference-ware for English has the lowest growth rate at -4.2% being driven down by government controlled pricing policies for education content purchased by both private and public schools.

Figure 3 - 2015-2020 Digital English Language Learning Five-year Growth Rates in China by Five Product Types



Courseware is primarily used by language schools and language departments in universities. The private language schools and both academic segments buy third-party digital language learning labs and license commercial content for the labs. The labs in use in China are still mostly PC-based software products with headsets.

The newer digital language learning labs are cloud-based and compatible with tablets. The labs usually come preloaded with language learning software, and in China, the language in highest demand is English.

The language learning lab suppliers are distributors and resellers of third-party content. This report identifies the language learning lab suppliers in each country. For example, Finland-based Sanako has distribution deals with Mintel in China.

Auckland-based English-to-Go sells a wide range of online English language learning products in China. They target higher education organizations and have institutions in Japan, Australia, China, New Zealand, and Japan using their digital products. They do have a direct-to-consumer business called Selfaccess.com as well and sell three-month access to English courses for the equivalent of $15. The Selfaccess.com platform is what they license to universities.

A company called Mythware is a China-based language learning lab suppliers. They claim that "Mythware Language Lab is the most popular Computer-Assisted Language lab system in China."

US-based Robotel sells language learning labs under their SmartClass+ brand to higher education institutions in over 75 countries including China. They have developed their own content. Pearson, Kaplan, and inlingua also compete in China with their own language learning lab platforms and proprietary content.

All of the major English language learning publishers operate in China, usually selling to school systems, but directly to consumers as well. They often compete via partnerships with domestic distributors, but also collaborate with major learning technology and educational content suppliers.

- Kaplan Digital English is headquartered in the UK and markets a range of digital English products for schoolchildren learning English as a second language. They market their signature product Picaro heavily in China; their main distributor in the region is Overleaf based in India. "Almost 1,000 educational online games mapped to the Cambridge English: Young Learners exams inspire and motivate children. Gamification components coupled with high academic credentials makes Picaro a unique offering in primary English sector."

- Cengage Learning has offices in China and their regional headquarters is located in Singapore. They sell a range of digital learning products in China under several brands including National Geographic Learning, ELTeach, MyELT, MyNGconnect, VitalSource, and PM eCollection.

- The Oxford University Press operates in China. Their Asia Education division was created in late 2012 when they split up their Oxford

International Division into two business units: Oxford Education (UK, Africa, Australia) and Asia Education. In their 2014/2015 annual report, they indicated that "even though there was relative weakness in the Indian and Chinese economies, turnover in Asia increased by more than 10%."

- In May 2014, Oxford University Press (UOP) announced a distribution agreement with Hujiang, an online private language school in China. In January 2016, Hujiang reported that they had 5 million active paying members and over 100 million registered members; 75% of their users accessed the site on mobile devices.

- Hujiang struck a similar deal with Cambridge University Press in November 2015. Hujiang also sells online English learning courses from McGraw-Hill Education, Coursera, HarperCollins, and Cengage Learning. Hujiang garnered a breathtaking $257 million in private investment in two rounds in 2015.

In 2014, Hujiang and Baidu did a survey on the purchasing patterns of people that buy education content in China and reported that "Foreign language studies were by far the most popular type of course, with a dominant 89.3 percent of respondents, followed by those accessing courses in lifestyle and hobbies (13.8 percent), and career certification and examination (13.5 percent)."

Despite the availability of free online courses, there is a cottage industry of commercial online test prep courseware suppliers, particularly in China. These specialized courses can command high price points, particularly if they include live online tutors.

In 2015, mobile language learning products generated the highest revenues for suppliers in China. Mobile language learning products in the form of educational apps and Mobile Learning VAS subscriptions are now the top selling types of digital English language learning products in China.

Mobile Learning content procurement is an integral part of tablet adoption in the schools. Many of these initiatives are nearing completion stages in several urban areas in China and buying cycles have returned to normal cyclical replacement patterns.

Device makers and MNOs pay suppliers to repurpose language learning content for mobile devices and they license VAS-ready content from third-party suppliers. Very few (if any) MNOs develop their own content. Mobile Learning VAS business models are almost all revenue sharing models and the third-party content suppliers realize revenues based on subscriptions sold.

The learning technology adoption in China's preschools is unique and the scale of adoption is not found anywhere else in the world. In China, so-called kindergartens accept students between the ages of 2 and 5. There are over 200,000 kindergartens (up from 134,000 in 2008) in China by the end of 2015 and over 70% were private. In fact, the preschool segment is so commercialized in China that the schools are often referred to as "preschool educational stores." By the end of 2015, there were over 35 million children in kindergartens in China. This is out of a cohort of 68 million 2-5 year olds in the country.

The number of public kindergartens is shrinking and the number of private schools is growing by an average of 12% a year. Red Yellow Blue Education Institution (RYB), Oriental BabyCare, Gymboree Play, 123 Education, and Music are some of the chief brand names operating in the market. A significant number of publicly-traded kindergartens are also prominent in China including Huijia Kindergarten and Hong Huanlan Education Group.

In China, the preschools are avid buyers of digital English language learning products. RYB Education licenses Scholastic's digital content (these assets are now owned by Houghton Mifflin Harcourt) and Oriental BabyCare licenses content from McGraw-Hill.

Finally, there is a high demand for test prep courses and online sample test prep for standardized English tests. Cambridge has over 25 standardized English exams including Business English, Academic English, Cambridge Advanced English (CAE), and the IELTS. ETS's develops the TOEIC and the TOEFL. The British Council's has a new exam called Aptis and Pearson's PTE Academic is relatively new as well. Other standardized English exams include BULATS, OPI, and OPIC. The College English Test (CET) and the Test for English Majors (TEM) are two exams used in the Chinese higher education system.

Academic institutions, governments, and corporate organizations use the scores on these tests to determine eligibility for admission, immigration, and employment (or promotion), respectively. In this context, they can be considered "high-stake" tests. Some of these tests are relatively new on the market. Pearson launched the PTE Academic in 2009 and is still rolling it out across the planet. The British Council launched the Aptis in late 2012 and is rolling it out in Asia Pacific.

Most standardized English test are administered (and scored) by the entity that owns the test and most are still pen and paper-based. Even the electronic TOEFL iBT exam is delivered at physical testing centers. The British Council has taken a new approach with the Aptis and grants licenses to organizations allowing them to administer the test themselves on a digital platform.

According to ETS, China has the second largest average TOEIC scores in Asia after India. In India, the average TOEIC score is 769 followed by China at 671. South Korea and Japan came in at 646 and 512, respectively.

UK-based Language Link has two language schools in Beijing and also offers online English products including self-paced courses called Oxford IELTS and Princeton TOEIC. The City University of Hong Kong offers two IELTS online courses to staff and enrolled students.

Sources of Data on the China Learning Technology Market

The financial reports from the domestic and international online education companies that operate in China provide invaluable insight into the rapidly evolving market conditions and revenue opportunities in the country.

There are dozens of publicly-traded online education suppliers operating in China including ChinaEdu, ATA, ATA Online (wholly-owned subsidiary of ATA), BAIOO Family Interactive, China Distance Education Holdings Limited, Xueda Education, Digital China, China Chuanglian Education, TAL Education Group, China Education Resources (CER), Shenzhen Kingsun Science & Technology (Kingsun), Ambow Education Holding, NetDragon, Tarena International , China Education Alliance, Hong Kong Education, Guangdong Qtone Education, Taomee, China E-Learning Group, and New Oriental Education.

Most of these education companies focus on a particular buying segment or a particular product and their financial statements provide precise reporting on particular product revenues generated in diverse buying segments.

- BAIOO Family Interactive targets preschoolers and Kingsun is a K-12 eLearning company.
- China Education Resources (CER) works directly with the Chinese government's K-12 education agencies and provides online professional development courses to over a million teachers.
- ChinaEdu is online education company serving the higher education segment; they are an aggregator with dozens of higher education partners.
- ATA sells test prep and online exams for corporate licensure and professional certifications (finance, IT, etc.).
- China Distance Education Holdings Limited (DL) offers professional online education and test preparation courses in accounting, law, healthcare, construction, engineering, and information technology exams.

Smaller publicly traded companies like Lingo Media and Cricket Media also operate in China and their financial reports provide insight into the academic and consumer markets, respectively.

The financial reports from all these companies provide detailed cross-sector information about the inhibitors and catalysts in their particular product market and buying segment.

The major international educational publishers are publicly traded and active in China. Pearson, McGraw-Hill (filed for their IPO in September 2015), John Wiley & Sons, Elsevier, Sanoma, Houghton Mifflin Harcourt, Singapore-based Popular Holdings, South Korea-based Chungdahm Learning, France-based Hachette Livre (Lagardère), and Japan-based Benesse (parent company of Berlitz) all have significant market presence in China. In July 2015, Pearson reported that 6% of their sales in 2014 were in China; this equates to $375 million in revenues.

A good source for the commercial education technology market in general in China is an edtech news website called JMDedu.com. "We observe the dynamic development of the edtech industry, discover inspiring companies and products, interpret policy change and market trends." They also track private investments made to learning technology suppliers in China.

Related Research

Buyers of this report may also benefit by the following Ambient Insight market research:

- The 2015-2020 Asia Self-paced eLearning Market
- The 2014-2019 China Self-paced eLearning Market
- Ambient Insight's 2016 Learning Technology Research Taxonomy

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