

English training business in Shanghai, China

Description

[Jason's comments: *this article is cited from Guardian website. This is intended to remind potential investors interested in English training of potential risk because of the already white-hot competition in the market. I am approached respectively by two investors looking to taking a bite of this big cake recently. There are a number of issues to consider and to be fully clear about. The biggest issue or obstacle is the confusion of the regulatory rules in respect of this language training activities in China. First of all, in Shanghai, three training institutions have been set up, namely, the Wall Street English, Disney English and English First. These setup was approved by Shanghai Foreign Investment Committee, instead of education department, which is equipped with the power to approve Sino-foreign contractual joint venture schools. However, our enquiry into other cities elicited that English training was regarded as education and therefore subject to approval of local education department. This has given rise to immense confusion in the market as to what legal structure an investor may consider for their investment in Shanghai. Secondly, the often mentioned issue about the employment of foreign teachers. Once talking to a friend who worked in Shanghai police department, I learned that WSE was once fined for failing to obtain requisite permit for hiring foreign teachers, the SAFEA permit. However due to ambiguity of related rules, law enforcers in Shanghai have been closing one eye towards failure to abide by the SAFEA rules. In practice, we believe that so long as foreign teachers who have obtained the ordinary work permit and residence permit, they should be free of problem from SAFEA.]*

In South Korea, pushy parents who want their children to get ahead in learning English send them for an operation to elongate the tongue, in the belief that it will make pronunciation easier.

Such is the national obsession with having a fluent command of the language that drastic measures are taken in some cases when children are just six months old. [China](#) has not yet reached the same level of fanaticism over spoken English, but it is not far off.

Chinese children with affluent parents are packed off to classes staffed by American, Canadian and British teachers as soon as they can speak. High school students are frequently enrolled in extra-curricular classes to cram for the English component of the university entrance exam. And young professionals aspiring to a more interesting and lucrative career flock to classrooms and online lessons and even stadiums alongside tens of thousands of other evangelical linguists.

To meet this rising demand, there are now an estimated 30,000 organisations or companies offering private English classes in China. The market has nearly doubled in size in the last five years and is now worth around \$3.1bn.

Disney English, a subsidiary of the US entertainment giant, has rapidly expanded since launching in October 2008, after thousands of parents signed their toddlers up for its special curriculum of Disney-themed classes. Today there are 11 schools featuring Mickey Mouse statues, Peter Pan text books and Little Mermaid teaching aids – eight in Shanghai and three in Beijing – and the company plans to double the number of locations by the end of the year.

Andrew Sugerman, Disney English's general manager, said: "We take children from age two to 12. Parents coming to our schools want their kids to start young, to reach a higher level of English. They want their kids to be comfortable communicating with others, particularly with foreigners, to be more competitive."

Analysts are predicting growth across the private English school sector in China of between 12% and 15% in 2010 as disposable incomes in urban areas rise and a greater proportion of that money is funnelled into educating the next generation.

Privately owned EF Education First, which has more than 130 schools under the English First (EF) banner, including many that are franchises, has witnessed fierce competition as barriers to entry have come down and companies have found it relatively easy to enter the market to meet the demand.

"Like any growing industry, specialisation and segmentation have occurred and competition is much greater than before," said Ming Chen, EF's executive vice-president.

In this climate, big brands – both domestic Chinese and foreign – with marketing clout, nationwide reach and access to capital, have been carving up the market and gaining share from the tens of thousands of smaller, local schools.

New York stock exchange-listed New Oriental, China's largest private education provider with 324 learning centres and schools, is best-known for its exam preparation training courses. Since its 2006 debut, its shares have more than quadrupled in value. In a recent analyst note, investment bank Goldman Sachs pointed out that the group's enrolments in the third quarter of the current financial year were up 18% year on year, ahead of expectations.

Chinese-owned Global Education & Technology group, which operates the Global IELTS brand, offering English language test preparation training at many of its 49 owned and 198 franchised schools, will be hoping to recreate similar shareholder value following its expected \$100m initial public offering on the Nasdaq later this year.

There is also speculation that UK media giant Pearson, which last year bought the Wall Street English chain, with 39 schools in China, is preparing to invest further in the region, after earning a \$1.6bn windfall from the sale of one of its subsidiaries. Analyst Lorna Tilbian at Numis in London said she expected Pearson to spend the cash on "emerging markets and digital technologies".

As a clutch of dominant, national and increasingly professional English language schools emerges, several smaller, localised teaching institutions, with less marketing and investment firepower, have started to crack.

At the end of last year, a spate of bankruptcies at some of Shanghai and Beijing's longest-running

language schools was at least partly linked to their failure to attract new students or top teachers in an increasingly competitive market. In the fallout it emerged that teachers and pupils at the collapsed schools were owed considerable amounts in unpaid wages and course fees and that many of the staff did not have proper teaching visas for China.

EF Education First estimates that there are just 5,000 native-speaker English teachers with valid teaching visas in mainland China. With more than 300 million students in the education system who could potentially seek out private English classes, that suggests a major staffing shortfall.

To some extent, Chinese nationals with a strong command of English are able to step in, but many students “ and their parents “ still place greater value on native English speakers.

Disney English’s solution has been to recruit teachers with specific young-learner teaching qualifications in the US, and arrange appropriate visas. In addition the company has launched a China-wide recruitment drive.

For qualified and experienced English teachers, the dynamics of the industry in China represent an opportunity. But for the thousands of small English language schools, unable to compete with the new breed of slicker professionals, times may be about to get significantly tougher.

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