Ambient Insight
Country Report

The 2013-2018 China Digital English Language Learning Market

Tablets in the Schools and the Demand for Mobile Products by Consumers Transform the Digital English Language Learning Market in China

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Market Analysis by:
Sam S. Adkins, Chief Research Officer

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Abstract

China is now the top buying country of digital English language learning products, not only in the Asia region, but in the world. The five-year compound annual growth rate (CAGR) for digital English language learning products in China is 23.6% and revenues will nearly triple over the forecast period. Revenues for these products will spike to a breathtaking $931.8 million in 2018, up from the $323.1 million reached in 2013.

*Due to the increasingly favorable market conditions, Ambient Insight has revised our China forecasts for digital English language learning products significantly upward from previous forecasts.*

The substantial growth in revenues for digital English language learning products in China over the forecast period is due primarily to the:

- 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 four specialized types of English in the corporate and government segments: business English, tourism English, hospitality English, and aviation English.

There were over 200 million PreK-12 schoolchildren in China in 2013. China has a centralized primary and secondary curriculum developed by the government. *The government’s goal is to have the entire K-12 student population online in the next ten years.*

In June 2010, the Shanghai municipal government announced that they intend to have all of their 1.2 million students accessing digital content on handheld devices by 2015. Nanjing began replacing textbooks with tablets starting in 21 schools in September 2012.

A conservative estimate by the Chinese federal government forecasts that over 20 million educational tablets will be deployed in Chinese schools by 2016. Intel is likely to have strong market share by then. Intel began rolling out their Studybook tablet in Chinese schools in late 2013.
As of July 2014, eight of the top ten selling educational apps in the Apple store in China were language learning apps and six of them were English language learning apps. The other two were a Korean app and a Chinese language learning game for very young children.

**Figure 1 - Primary Catalysts Driving the 2013-2018 Digital English Language Learning Market in China**

There are challenges for suppliers who want to compete in China. For example, navigating the Android app market can be daunting. There are hundreds of Android app stores in China. Paying for apps in those stores is anything but straightforward, and payment pathways and distribution channels are often quite complex, especially for international suppliers.

This report identifies the largest app stores across the independents, the device makers, the mobile network operators (MNOs), and the large Internet portals with commercial app stores. This report also maps out the payment and distributions challenges and provides recommendations to mitigate them.

Internet access in China is largely a mobile experience. Over 350 million smartphones were sold in China in 2013. Just under 400 million smartphones are projected to be sold in China in 2014.

China now accounts for over 30% of all smartphones sold in the world. China had over 618 million Internet users by the beginning of 2014, and 80% (494 million) of them access the Web via their smartphones.
The China Internet Network Information Center (CINNIC), a government Internet administration agency, reported in 2013 that **over 200 million people in China use their phones on a monthly basis to access Mobile Learning content in China.**

Subscription-based Mobile Learning content sold as a value-added service (VAS) is a relatively new type of Mobile Learning product—a fusion of packaged content and services. Ambient Insight has labeled this new product type "Mobile Learning VAS."

Although the Mobile Learning VAS offerings in China have relatively low subscription prices, they have very large subscriber bases. By the end of 2013, China had eight major Mobile Learning VAS products on the market, each with millions of subscribers. Consequently, the revenues are quite high. Five-year forecasts for those revenues are included in this report.

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 top revenue-generating type of Mobile Learning VAS in China is English language learning.**

The mobile network operators (MNOs) are now major distributors of digital English language learning products to consumers in China. The supply chain (and the business models) can be quite complex.

The MNOs partner with third-party suppliers for the content. All of the telecoms that offer digital English language learning VAS products are identified in this report. Due to direct carrier billing, the MNOs have an edge in countries where credit card usage is not widespread.

Another interesting pattern in China is the recent spike in private investments made to suppliers that serve the Chinese market. This is a distinct leading indicator. This only started in earnest in 2013 and $183.6 million has been invested in 17 online English language learning suppliers in China from 2013 through the first half of 2014.

More than half of the total investments made to digital English language learning suppliers in 2013 and 2014 went to Chinese companies. This trend is likely to continue.

According to an April 2014 article in The China Times, over 1,000 new online education companies opened for business in China in 2013 alone. "Chinese internet giants Baidu, Tencent and Alibaba have begun building their respective online learning platforms and have proactively invested in e-learning companies or products in the meantime."

In 2013, a Chinese company called Hujiang.com garnered $20 million. Another Chinese company called 51 Talk, which claims to be the "fastest
growing online ESL provider in China," obtained $12 million. Two other companies each obtained $10 million in 2013: Alo7 and Chuanke.com. Baidu, the largest search engine provider in China, acquired Chuanke in August 2014.

The investment spike in the first half of 2014 was due to the breathtaking investment made to TutorGroup. TutorGroup bills itself as the "largest English-language learning institution in the world" and obtained $15 million in their first round of funding in 2012. They garnered an astounding $100 million in private investment in February 2014.

TutorGroup started in China and has expanded across the globe. "With more than 2,000 teachers in 30 countries and 60 cities around the world, TutorGroup provides real-time interactive language learning through millions of class sessions annually." In October 2013, they reported that their sales grew by 300% compared to the previous year.

According to China-based Internet consultants iResearch Group, "There's an increasing number of Internet users in China. More of them are getting used to online classes and the number of online learners in China is expected to grow from 67.2 million in 2013 to 120 million in 2017."

Clearly, the market conditions are favorable for digital English language learning suppliers in China. That said, doing business in China can be challenging for a foreign firm. An analysis of those challenges and how suppliers are overcoming them is included in this report.

Over 60 suppliers operating in China are cited in this regional report to help international suppliers identify local partners, distributors, resellers, and potential merger and acquisition (M&A) targets.

What You Will Find in This Report
There are two sections in this report: a demand-side analysis and a supply-side analysis. The demand-side analysis provides suppliers with five-year revenue forecasts for six buying segments.

The demand-side analysis also provides a breakout in two tables of the forecasts for consumer and PreK-12 spending on products used by five age groups, or cohorts. The supply-side analysis breaks out revenues by five learning technology product types.

This report does not include revenues for custom content development services. Standardized English exam and proficiency test revenues are not included in the forecasts in this report. Revenues for online courses for test prep are included.

Ambient Insight only provides forecasts for expenditures on the actual instructional product and not for peripheral revenues like installation,
integration, certificates, support, professional development, or for ads, merchandise, or tokens in freemium products.

This report only includes revenues for digital English as a Second Language (ESL) and English as a Foreign Language (EFL) products. It does not include early childhood reading, writing, and literacy products designed for children that already speak English.

**Who are the Buyers?**

This report breaks out five-year spending forecasts for consumers, corporations & businesses, PreK-12 schools, higher education institutions, federal government agencies, and provincial/municipal government agencies. The buying behavior in each segment is quite different and this report identifies the products in the highest demand in each segment.

The PreK-12 spending is mostly government (both federal and municipal) spending, but is broken out from the non-academic government spending in this report in order to identify specific revenues opportunities for suppliers.

**Figure 2 - 2013-2018 Digital English Language Learning Five-year Growth Rates in China by Six Buyer Segments**

Education in China is only compulsory up to the ninth grade. However, the government expects 87% of the student population to attend 10-12 grades by 2015. *English and computer technology are introduced in the third grade in the public schools in China.*
The teaching of English and the use of technology is more prevalent in the private schools, but 94% of Chinese children in grades 1-9 are in public schools. Only 9% of high school students attend private schools in China and most of them attend so-called international schools.

There are over 340 international schools in China (168 of them are in Hong Kong) and English is the dominant language of instruction for all grades. The vast majority of digital English language learning revenue is generated in the public PreK-12 sub-segment in China.

The growth rates for digital English language learning products in the federal and local/provincial segments are both above 30%. Local and provincial government agencies have much different needs than the federal government and the digital English language learning products being purchased by those agencies are quite different.

The highest growth rate for digital English language learning products is in the consumer segment at 36.3%. Consumer buying behavior in China is being driven by several factors, particularly a spike in the demand for mobile products and value-added services. Consumer-facing language learning portals in China are now attracting significant venture capital, which is a leading indicator of the strength of the demand in this segment.

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. This report provides a breakout in two tables of the forecasts for consumer and PreK-12 spending on products used by five age groups, or cohorts:

- 3-5 years old (Kindergarten)
- 6-7 years old (first and second grade)
- 8-11 years old (third, fourth, fifth, and sixth grades)
- 12-14 years old (seventh, eight, and ninth grades)
- 15-17 years old (tenth, eleventh, and twelfth grades)

The cohort analysis provided in this report unveils significant differences between consumer and PreK-12 spending for these 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.

One major catalyst in the consumer segment (and the higher grades in the PreK-12 segment) is the heavy emphasis on standardized English tests and high stakes testing in the country. For example, over 10 million high school seniors take the national university entrance exam (known as the "gaokao") every year.
These students are competing for 6.5 million available places in the higher education system and achieving high scores on the tests is vitally important to students and parents.

A significant portion of the gaokao is dedicated to assessing English language comprehension and this is a catalyst for English test prep courses (both physical and online) mapped to the exam. Digital gaokao test prep is still a relatively small proportion of the market, although demand is increasing rapidly.

The demand for digital English language learning products in the higher education segment is due not only to the growing emphasis on the use of English as the language of instruction, but also due to standardized English language tests such as the Ministry of Education's College English Test (CET), taken by over 6 million students a year.

There are 50,000 English language schools in China and 90% are private. These companies are becoming a significant reseller channel for commercial digital English language learning products.

TutorGroup is 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."

According to China's Ministry of Education's National Education Development Statistical Bulletin, English language learning was a $4.9 billion industry in China by the end of 2013, and growing, on average, by 12-15% a year.

The worldwide language learning market (all languages combined) reached $56.3 billion industry in 2013. The sales of English language learning products (digital and non-digital combined) generated $35.5 billion (or 63% of the total language learning market) in revenues in 2013, making it the largest concentrated revenue opportunity in the international language learning market.

By the end of 2013, China accounted for 13.8% of the global English language learning market. *(Source: The 2013-2018 Worldwide Digital English Language Learning Market)*

Private language schools in China are gradually shifting to online delivery as a way to increase margins. The presence of large private language school ecosystems is a catalyst for digital English learning as the private schools transition to online delivery. The quickest way to get to market is to resell commercial products.

Tell Me More (now owned by Rosetta Stone), DynEd, and GlobalEnglish (acquired by Pearson in May 2012) are major suppliers of digital English language learning in the private channel. When Rosetta Stone acquired Tell Me More in late 2013, they stated in the press that the goal was to acquire organizational Chinese buyers.

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McGraw-Hill, Macmillan, Cambridge University Press, and Oxford University Press have very large installed bases in the private school industry. In March 2012, McGraw-Hill announced a ten-year licensing deal with Beijing-based Oriental Baby Care, which operates over 450 preschools in 180 cities in China. By mid-2014, Oriental Baby Care 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."

In May 2014, Oxford University Press (UOP) announced a distribution agreement with Hujiang, an online private language school. 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.

Hujiang reported that they had 3 million active paying members and 70 million registered members "made up primarily of young, white-collar workers, many who work for foreign-owned enterprises".

The private language schools buy language learning labs and use the software as supplemental content used in tandem with their classroom instruction. The language learning lab suppliers often partner with commercial language learning suppliers for the content in their labs.

Finland-based Sanako is the world's largest language lab supplier with over 40,000 installations across more than 100 countries. In early 2013, Sanako announced an agreement with Oxford University Press "to resell digitised content from the *English for Life* series to both existing Sanako customers and new customers of digital software labs." The bundle is called *English for Life, powered by Sanako*.

US-based Eleutian Technology provides line online English tutoring branded as SpeakENG "which combines live online English lessons delivered by video-conferencing between students and US-certified school teachers, with world class online content, including Pearson's English Language Learning and Instruction System (ELLIS)."

Eleutian has deals with two of the largest online private schools in China: China Distance Education Holdings Limited (CDEL) and New Channel International Education Group, which has over 100,000 students in China.

The private language schools are heavily concentrated in economically developed areas, such as Beijing, Shanghai, Guangzhou, Shenzhen, Chongqing, and Wuhan. Disney, Pearson, Education First (EF), and New Oriental Education combined account for 25% of the private English language learning revenues in China. EF has 120 private language schools in China.

What is interesting about the Chinese private language school industry is that many of the largest suppliers are online private schools. According to ChinaVenture Investment Consulting Group, 32% of all online education companies in China provide preschool education and **27% are dedicated language learning companies.**
What Are They Buying?

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

- Self-paced eLearning
- Collaboration-based Learning (live online classes and online tutoring)
- Digital Reference-ware (eTextbooks, video, audio)
- Mobile Learning apps and edugames
- Mobile Learning VAS

Five-year revenue forecasts for these five learning technology types are included in the supply-side section of this report. In 2013, mobile products generated the highest revenues for suppliers.

Mobile educational apps, mobile edugames, and Mobile Learning VAS subscriptions are now the top selling types of digital English language learning products in China, followed by live online tutoring and self-paced courseware.

Figure 3 - 2013-2018 Digital English Language Learning Five-year Growth Rates in China by Five Product Types

There is a lucrative market for online English language learning test prep that targets the gaokao. Driven by the emphasis on the gaokao, it is no surprise that the revenues generated in the PreK-12 segment are
concentrated in the higher grades and heavily clustered in grades 10-12 comprised of 15-17 year olds.

In contrast, by 2018, digital English language learning products purchased by parents for 6-7 year olds will account for the highest consumer revenues out of the five age cohorts. The growth rate in the 6-7 year old cohort in the consumer segment is a breathtaking 49.2%.

The consumer demand for English language learning products for preschool children is now booming in China. The growth rate for digital English language learning for products used by children between three and five in the consumer segment is also quite high at 41.9%.

In the 2013 market, revenues derived from products used by children under 17 accounted for 73% of all consumer revenues. By 2018, 81% of the consumer revenues will derive from products purchased for children under 17.

New Oriental Education claims to be the largest provider of "private educational services" in China with a catalog of courses that includes language learning. In 2013, they reported that their revenues for "online children’s English classes are rising 35% a year."

New Oriental had 8.8 million registered students of all ages as of early 2014 and state that "while English is by far the most popular language we teach, we also provide courses in German, Japanese, French, Korean, Italian and Spanish."

The two product types with the largest growth rates in China are Mobile Learning apps (and edugames) and Mobile Learning VAS at 28.5% and 26.3%, respectively. They will also generate the highest revenues throughout the forecast period. By 2018, revenues for both product types will more than triple.

In May 2014, New Oriental launched a mobile English language vocabulary app called Le Ci, for mobile phones and tablets. In the first two months since it was launched, the app was purchased by over 310,000 users.

An interesting product bundle is Ireland-based Onwards Learning’s LearnOnEnglish (LoE), which is actually a collection of over 100 third-party products from over 300 digital English suppliers. The LoE catalog includes "software apps, courseware and learning path systems, tutor services, assessment tools, and accreditation programmes." The company has massive distribution agreements in China with government-backed educational portals and vocational schools and is actively seeking new content partners.

In August 2013, Alibaba’s Taobao (sometimes called China’s eBay) launched their new online education portal called Taobao Tongxue (Classmates). In April 2014, Taobao Tongxue’s chief executive stated in the press that their most popular online courses were "English language training, followed by marketing management, tutoring for middle and elementary school students, literal sciences, and vocational exams."
There is a high demand in China for specialized forms of English known as vocational English. Vocational English products include aviation, business, hospitality, finance, law, medical, transportation, tourism, oil & gas, information technology, and engineering English.

Corporations and government agencies in China buy online vocational English courses and live online tutoring. Higher education institutions with hospitality and tourism programs buy self-paced online vocational English courses.

The major aviation English suppliers in China are US-based DynEd, Wall Street English, Hong Kong-based Aviation English Asia, and EF Education First.

There is a very specialized form of English known as Academic English. Academic English is intended not only to 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 in China with a high number of English-only programs and taught to students who intend to enroll in English-speaking institutions outside the country.

**Related Research**

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

- [The 2013-2018 Asia Digital English Language Learning Market](#)
- [The 2012-2017 Asia Mobile Learning Market](#)
- [The 2012-2017 Worldwide Mobile Market](#)
- [Ambient Insight’s 2014 Learning Technology Research Taxonomy](#)