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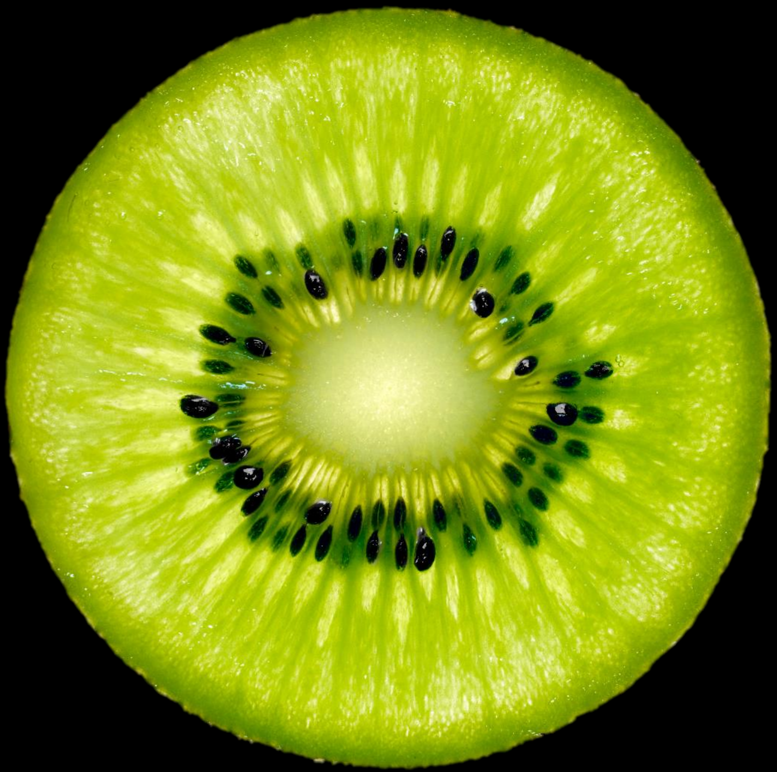


English New Zealand

Improving your bottom line –
benchmarking and sustainability

November 2017

Introduction and agenda
What are we going to cover today?

Today:

- Benchmarking
- 2015 Benchmarking Report results
- Value of Benchmarking
- The future face of English NZ and the International Education Sector
- Questions

Previous work by Deloitte for ENZ:

- Previous presentations/seminars
- 2 x benchmarking reports on the New Zealand English Language Sector
    - – 2013 & 2014 report
    - – 2015 report

Benchmarking

Benchmarking
Overview

What is a benchmark?

- Standard or reference that allows comparisons to be made

Why benchmark?

- To compare how your organisation is performing against others within the industry
- Make decisions on how to improve your business performance and operations
- Highlight and quantify opportunities
  - Where can reducing cost and increase quality of service
  - Understand your organisation’s strengths and weaknesses compared to others
  - Change the way you view performance – qualitative and quantitative measures
  - Reveal investment areas to improve operations
  - Combat organisational complacency and perception that current performance is acceptable

Benchmarking

Key Insights from 2015 English NZ Benchmarking Report

- Comparisons of median, LQ, UQ and averages for a range of key financial measures for 2013-2015 financial years

- Number of schools participating:

  2013: 14 schools
  2014: 17 schools
  2015: 15 schools

Key highlights

A summary of the 2015 benchmarking survey results against 2014.

- 17% increase in average sales (turnover)
- 17% increase in average expenditure
- Profitability percentage is down 3 percentage points
- 39% increase in average FTE staff numbers
- 25% increase in average staff costs
- 22% increase in average tuition weeks
- 11% decrease in average net tuition income per tuition week

Benchmarking

Key Insights from 2015 English NZ Benchmarking Report

Key themes picked up based on the survey results across 2013 to 2015:

Growth for the sector

- Increase in sales (turnover), number of tuition weeks and number of FTW weeks
- Positive trends showing the market space increasing

Decrease in tuition income per tuition week

- Despite positive sector growth in volume, tuition income per tuition week fell, with insufficient detail to confirm why
- Targeted markets are of a lower return? Reduction in pricing to attract students?

Decrease in efficiency of delivery

- Increases in expense to sales ratios, decrease in gross profit percentage
- May flow through to improved profitability in long term

Key themes from the report

Summary observations based on the survey results and information that has been provided.

Growth for the sector

There is evidence of growth occurring in the sector as indicated by the increases seen in sales (turnover), the number of tuition weeks, and the number of FTE staff. These by themselves are all positive trends to see as they show the market space is increasing, the sector is contributing positively to the economy and that there are opportunities for individual schools to grow and expand. However, as detailed below despite this overall growth in the sector's sales and services provided, this has not been reflected in the financial results per tuition week.

Results per tuition week

Despite the positive growth discussed above, the tuition income received per tuition week has fallen. The information received is not sufficiently detailed to enable a better understanding of why this is occurring without further investigation with individual schools. Is it because the market/s targeted are of a lower return? Or, is it because of a reduction in pricing through a deliberate pricing strategy to attract students?

If it is the former, consideration should be given to our cost to serve models in New Zealand and our comparative international competitiveness, i.e. is targeting a lower value market sustainable over time. If it is a deliberate pricing strategy we would hope to see this trend reverse in the short to medium term as the industry consolidates the new volumes and grows the value of a tuition week.

Efficiency of delivery

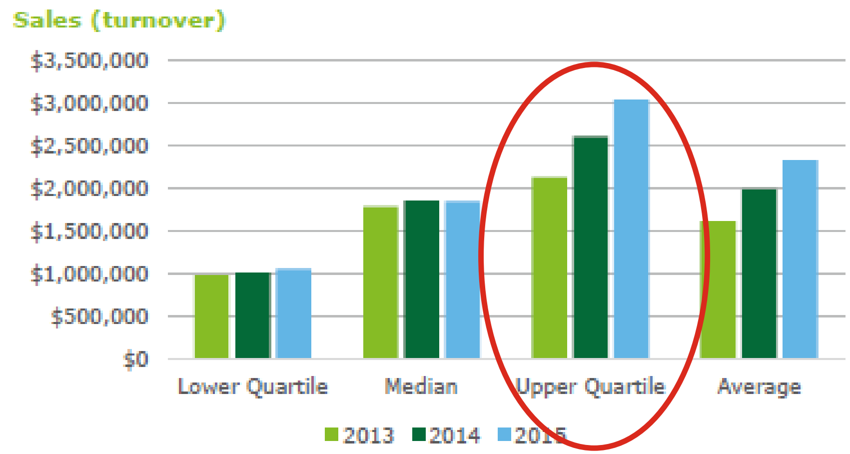
Although we are seeing volume growth, unfortunately the efficiency of delivery has also been affected. Indications of this include the increases seen in a number of the expenses to sales ratios and the decrease in gross profit percentage. This could be explained as a short term consequence, for example as teaching capacity was brought on to manage the growth, and would therefore be a timing issue. If that is the case then if the new volumes are held we would expect to see levels of efficiency return to historical levels, with this then flowing through to improved profitability levels in the long term.

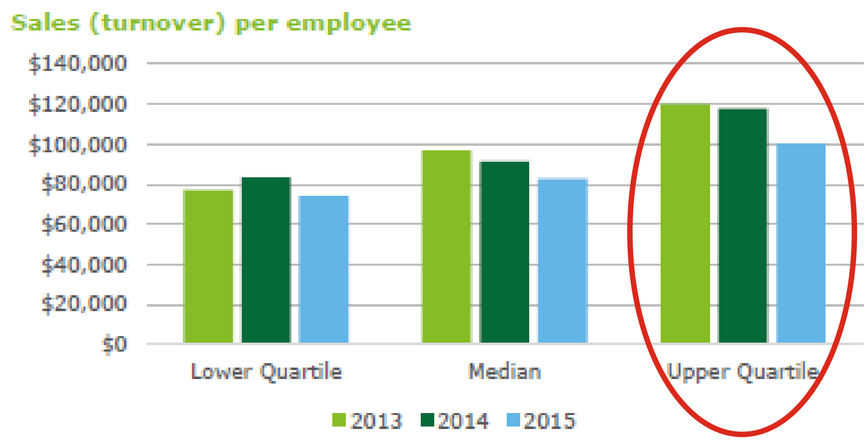
Benchmarking

Key Insights from 2015 English NZ Benchmarking Report

Example of survey results that supported the key themes identified

- Overall total sales increased for the upper quartile supporting sector growth
- But - sales per employee decreased for upper quartile – supporting the decrease in efficiency of delivery theme



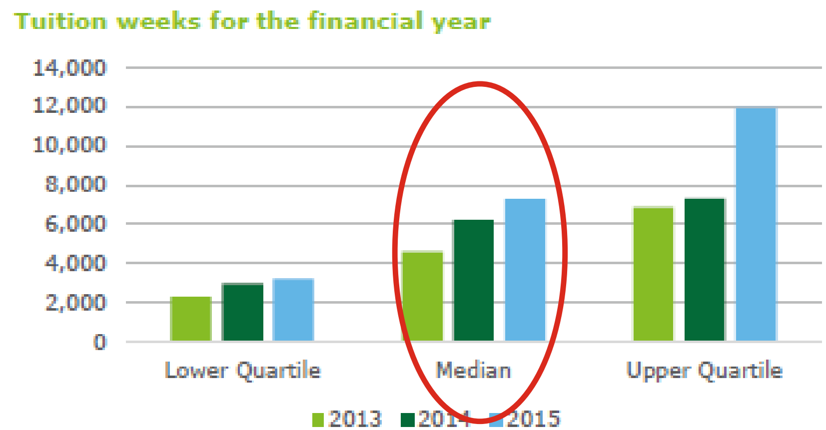


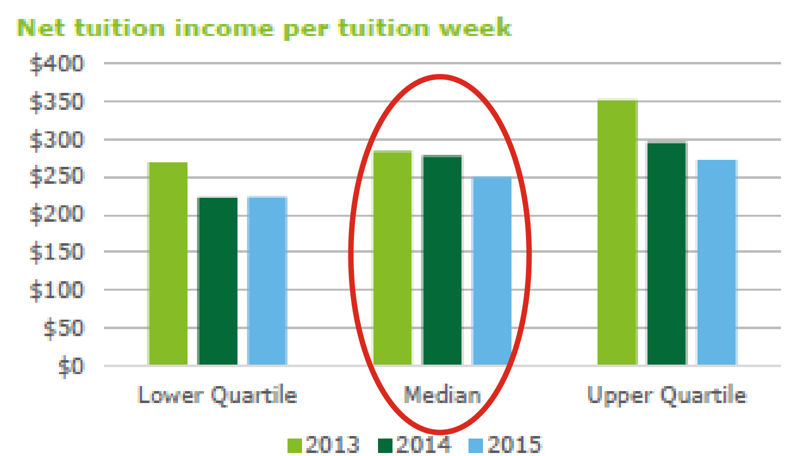
Benchmarking

Key Insights from 2015 English NZ Benchmarking Report

Example of survey results that supported the key themes identified

- Tuition weeks for the year increasing over the three year period = supports industry growth
- But – net tuition income per tuition week fell. Not enough data to provide evidence as to WHY?
  - Decrease in the average tuition price per tuition week per student



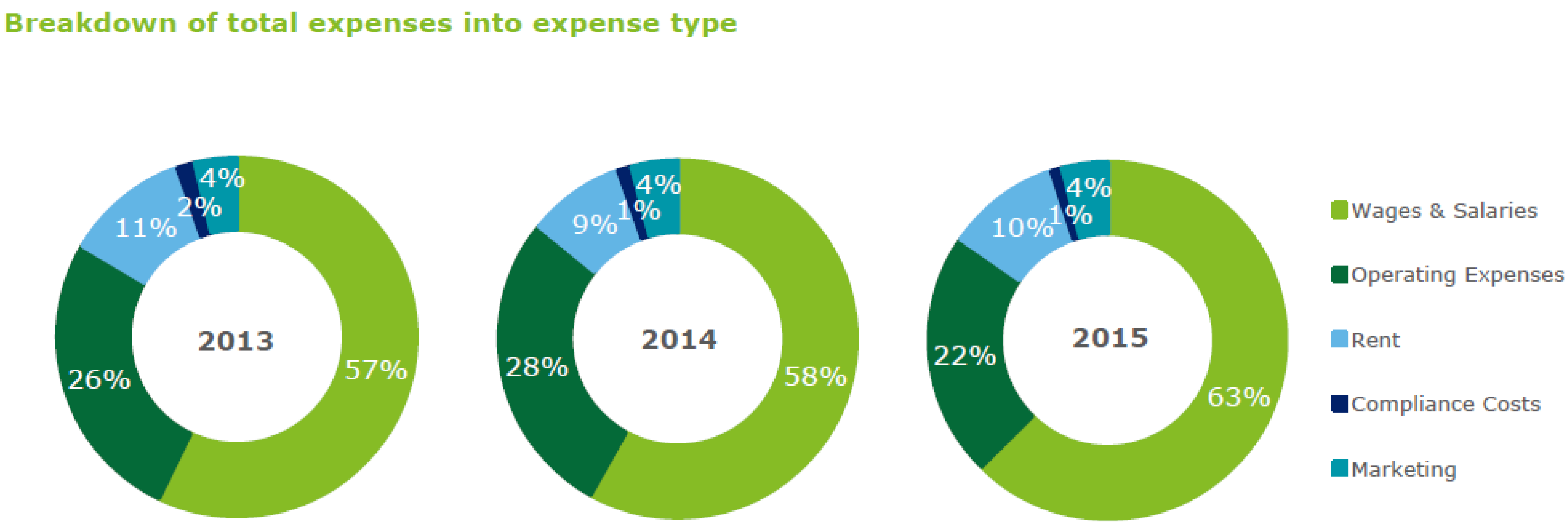


Benchmarking

Key Insights from 2015 English NZ Benchmarking Report

Example of survey results – expense analysis

- Wages & salaries make up increasing proportion of total expenses from 2013 to 2015
- Operating expenses decreased proportionately from 2014 to 2015
- Compliance and marketing costs consistent



Value of Benchmarking

Improving your bottom line

Value of Benchmarking

Four Pillars Model

Vision and Goals

Improve Sector Health

Strong Governance and Performance Management

SCALE REVENUE GROWTH	COST MGT	EMINENCE	QUALITY TEACHERS
Economies to leverage investment in systems and processes	Strong financial performance to fund growth and investment	Members Recognised as a leading and credible English Teaching Schools	Retain and attract - the place where the best want to be

Reputation and Risk

System and Process

International Education

Why is it important to gather benchmarking data

- Understand where the business is at and where it is going
- Assess performance compared to others in the industry
- Set targets to enhance business performance - on which to establish a road map to implement operational changes
- Assess the impact of change
- Eliminate data overload
- Support and inform policy debate with evidence

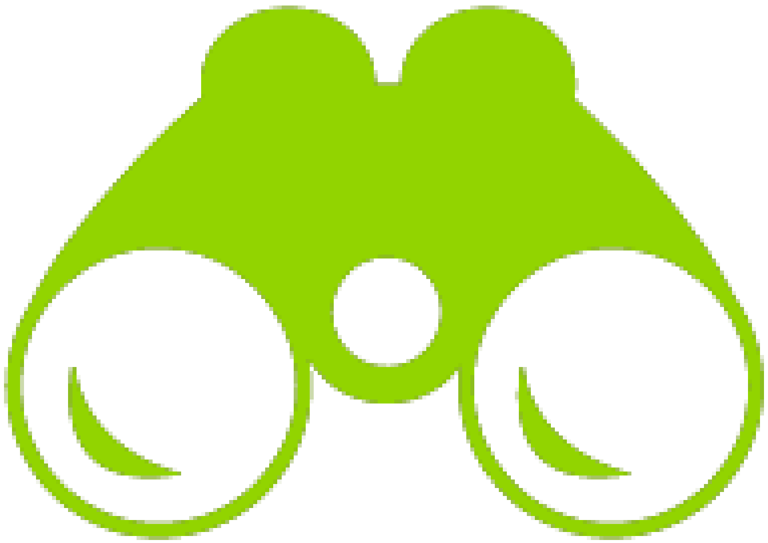
"facilitates sustainable growth and rewarding business conditions for members through four key activities:

- ***advocacy,***
- ***quality assurance,***
- ***marketing and***
- ***membership services."***

International Education
It won’t happen over night

Benchmarking requires a long term view

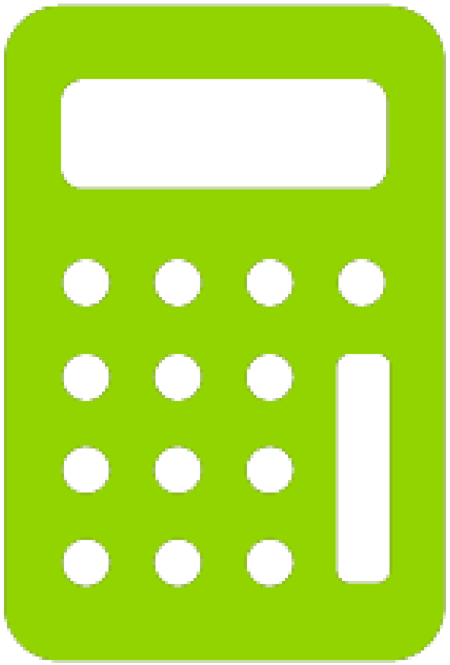
- Benchmarking is most useful if conducted on an ongoing basis
- What are you trying to achieve?
- Start with small data set
- As data is collected over a few years we can start to see trends
- Gathering more information to give better insights
- Compare Apples with Apples



International Education
What else should you be looking at?

Other ratios that would be useful include:

- Breakeven point
- Gross Profit Percentage
- Teaching staff utilisation
- Teacher numbers
- Asset utilisation
- Finance/leverage ratios

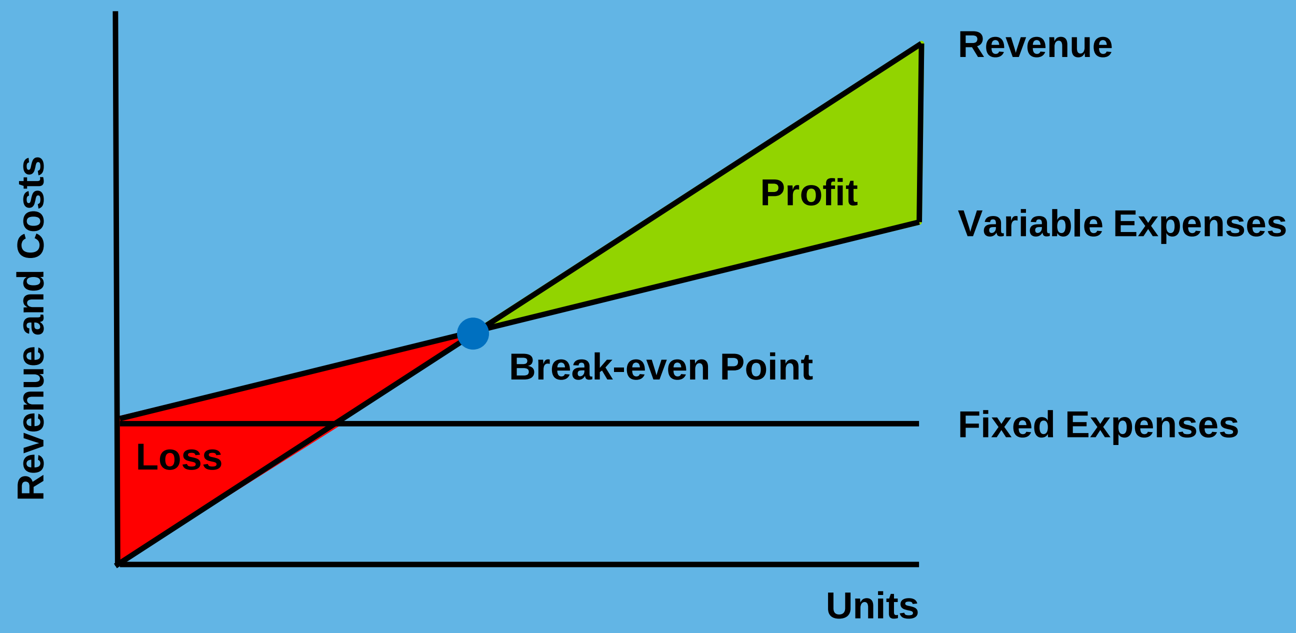


International Education

Break Even Point

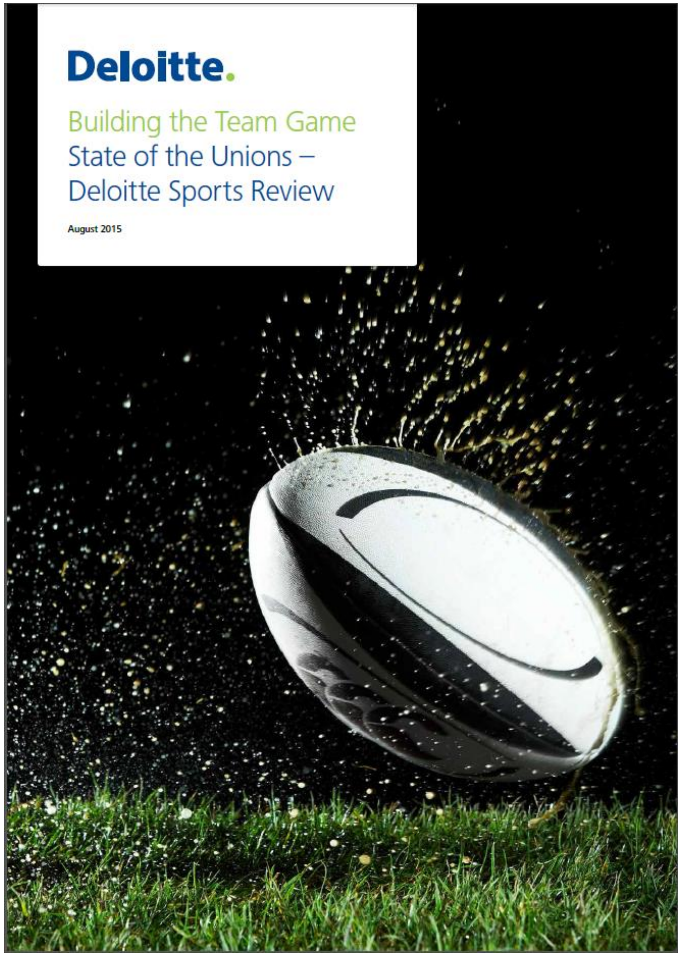
Breakeven Point	=	Fixed Expenses / Unit Price – Variable Expense per Unit

$$\text{Breakeven Point} = \frac{\text{Fixed Expenses}}{\text{Unit Price} - \text{Variable Expense per Unit}}$$



Benchmarking

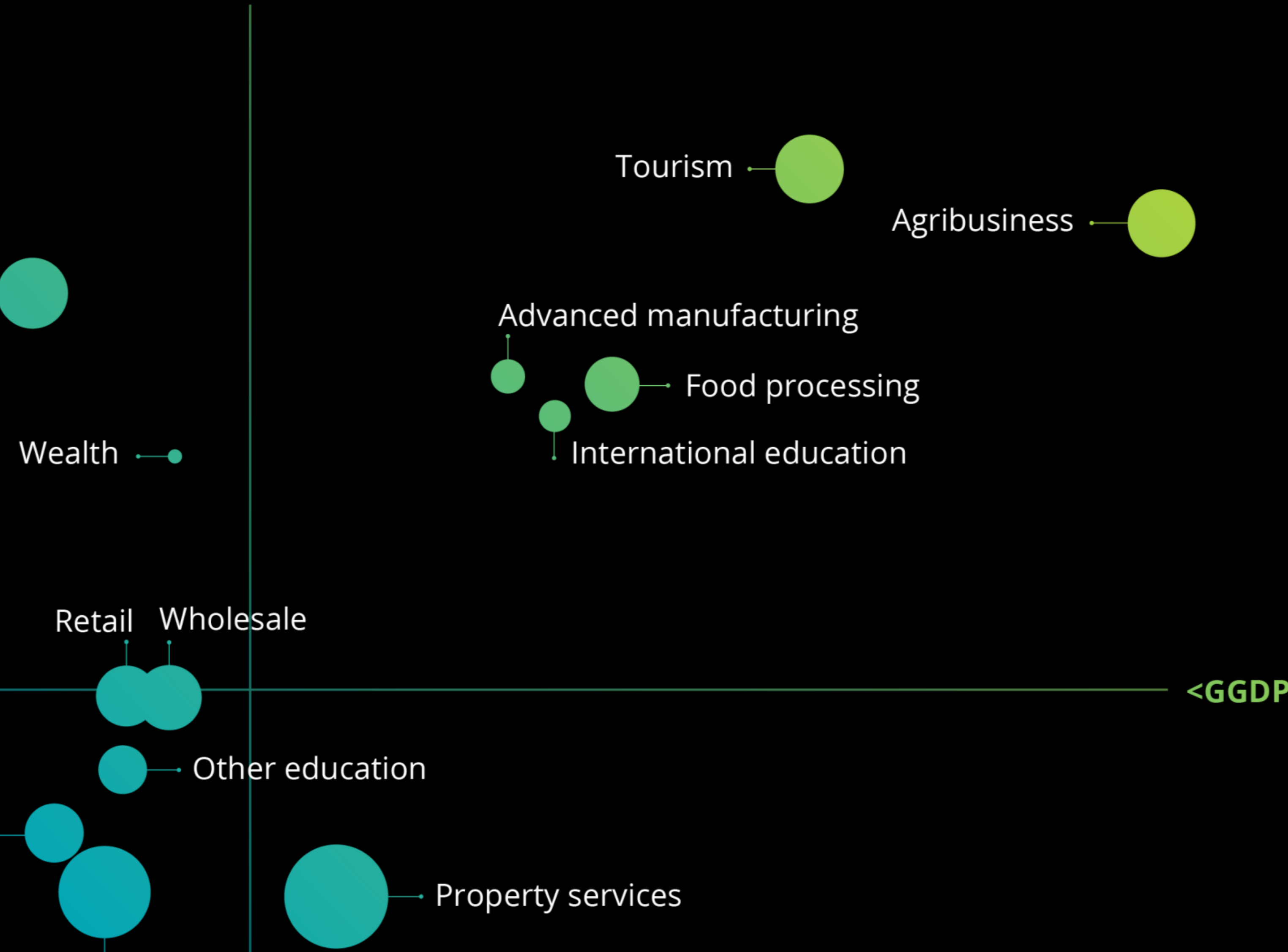
Examples of other industries using benchmarking



Future face of English NZ

International Education

New Zealand's prosperity map



Tourism
Agribusiness
Advanced manufacturing
Food processing
International education
Wealth
Retail
Wholesale
<GGDP
Other education
Property services

International Education

Students are more mobile an flexible about the location and timing of their study than even before

Advantages

- A positive and authentic education experience for leaners
- Proximity to Asia
- International Collaboration – around research – that contributes to our longer term economic growth

Challenges for New Zealand

- How do we remain relevant - International education is becoming increasingly borderless – it is just a click away
- Increase the value of international education – not only the volume. Per-student spend is predicted to decrease as cost to service models change - maintain margin!
- Students attraction and rising students expectations – recognition of our qualifications overseas
- Attracting international students beyond Auckland

$4.5 Billion

4th Biggest export earner

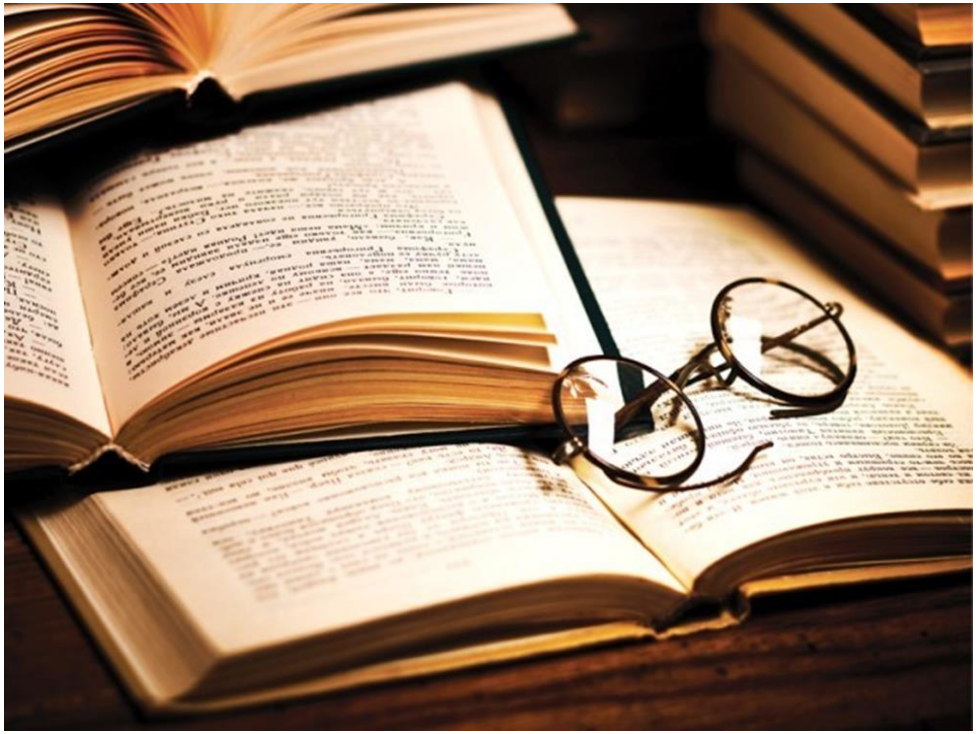
$63% of total international enrolments are in **Auckland**

International Education

Positioning for prosperity

The following questions should be considered to take full advantage of the opportunities in the international education sector.

1. How can we encourage further international research collaboration and support bilateral student flows?
2. How can we improve visibility and accessibility for international education in NZ?
3. How can we incentivise the delivery of new innovative education and training services in NZ?
4. How can we increase both the value and the volume of international education in light of future trends and manage risks at the same time?
5. How can we distribute demand for international education outside Auckland?



Questions?

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