Cairneagle

“Strategic considerations to strengthen business models and be resilient”

22 September 2022

EducationInvestor Awards 2015 WINNER

EducationInvestor Awards 2016 WINNER

EducationInvestor Awards 2019 WINNER

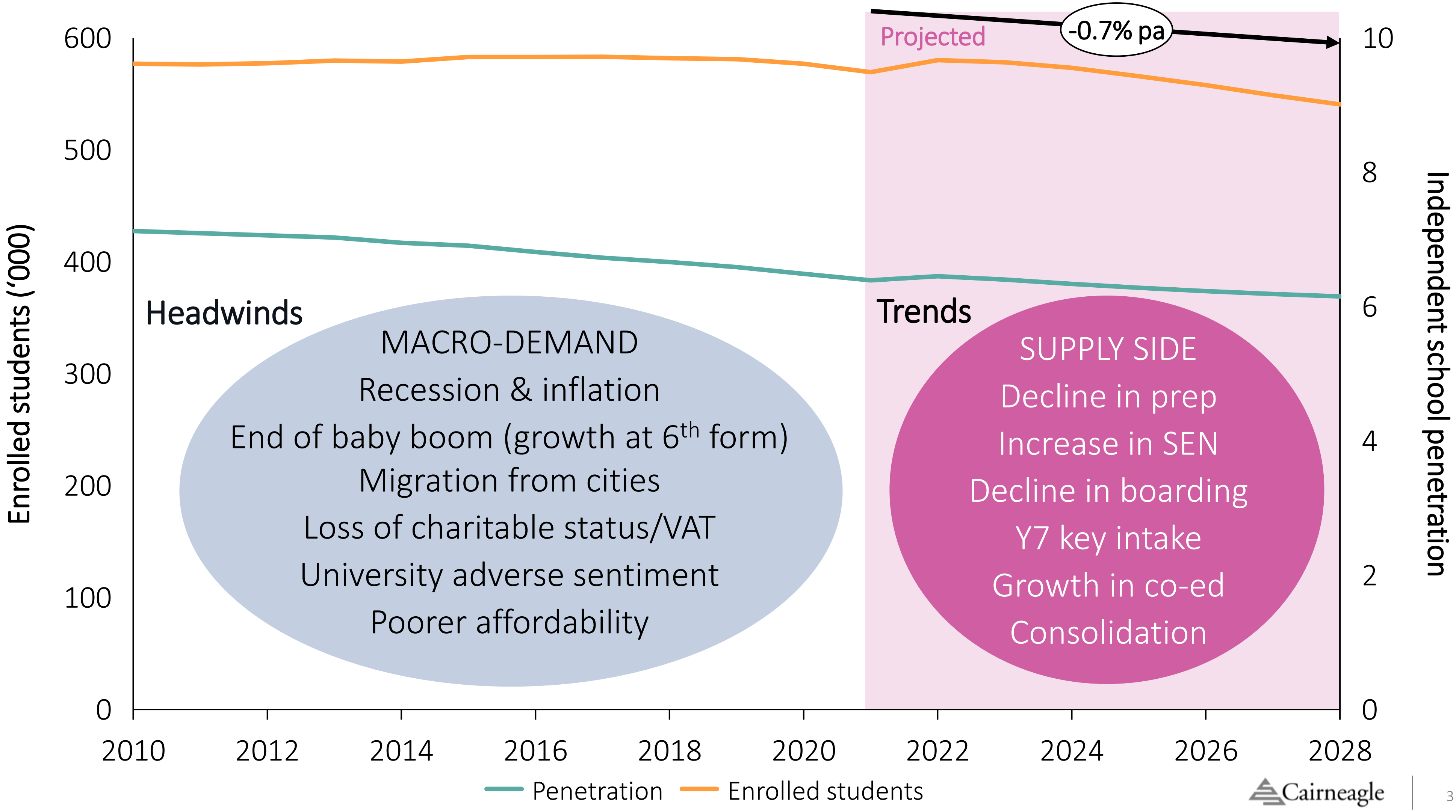
EducationInvestor Awards 2021 WINNER

Every school has options to improve resilience

Understanding the context	Levers to drive resilience
Market and structural trends	*Reconfiguration of offer*
Your school's positioning	*Diversification*
	Cost / performance improvement

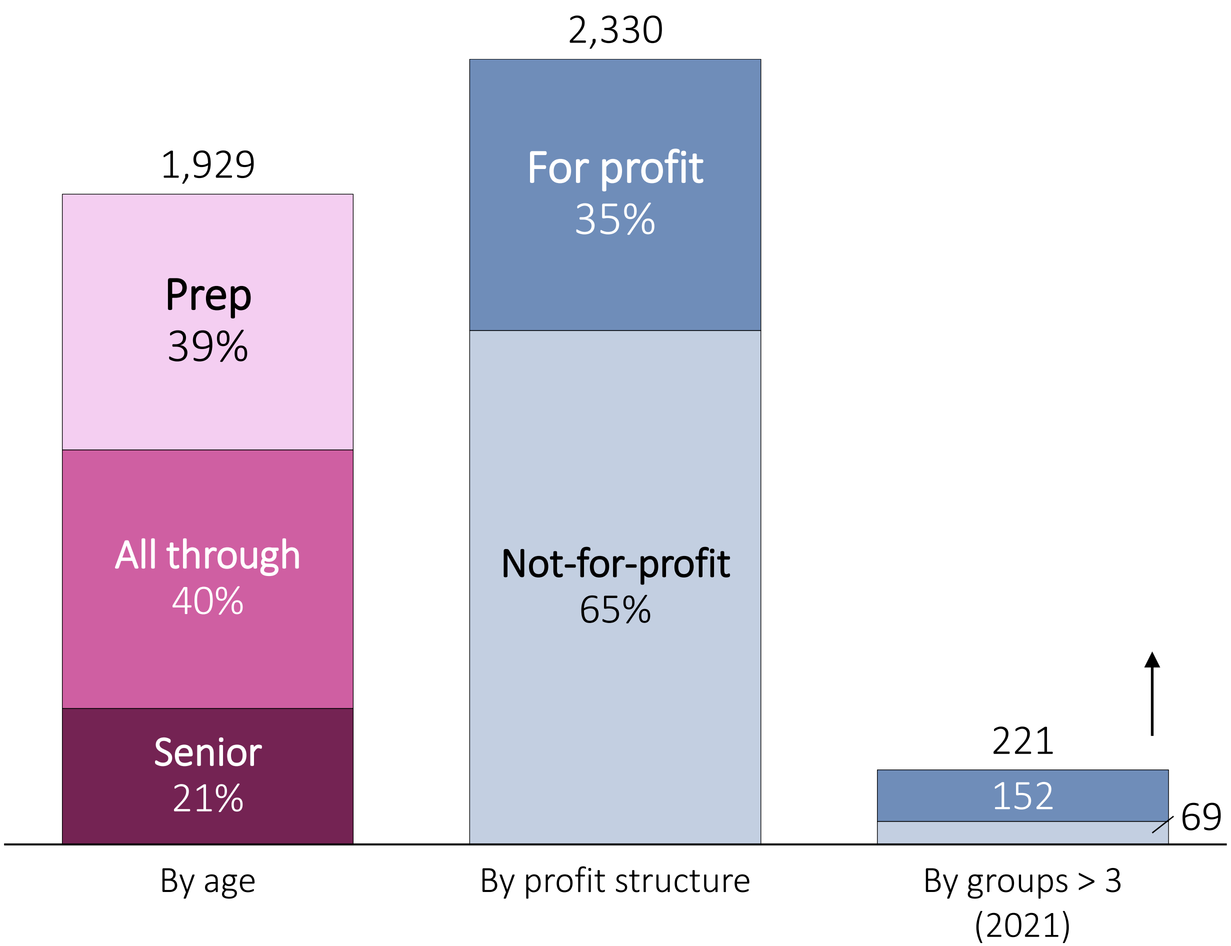
Headwinds are driving declining demand

Independent school enrolment and penetration rates in England, by full year



Further consolidation into groups is inevitable

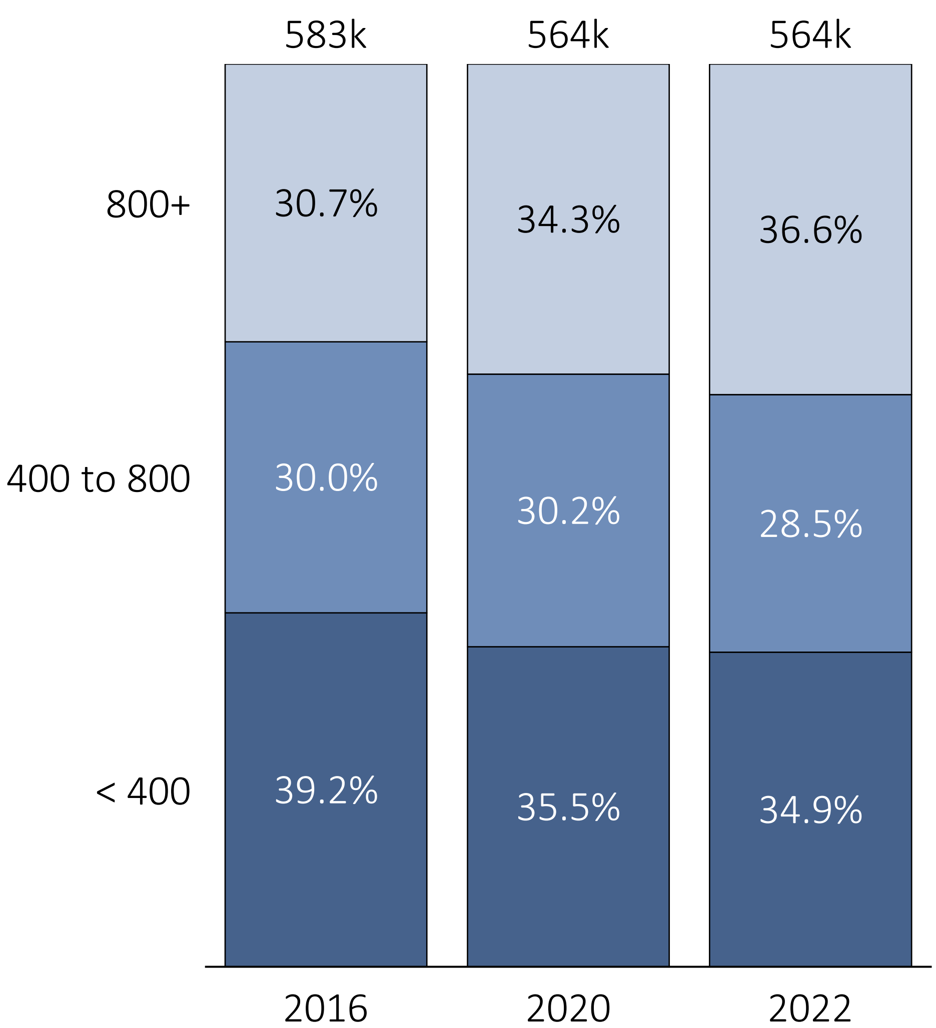
UK Independent Schools by type (number of schools)



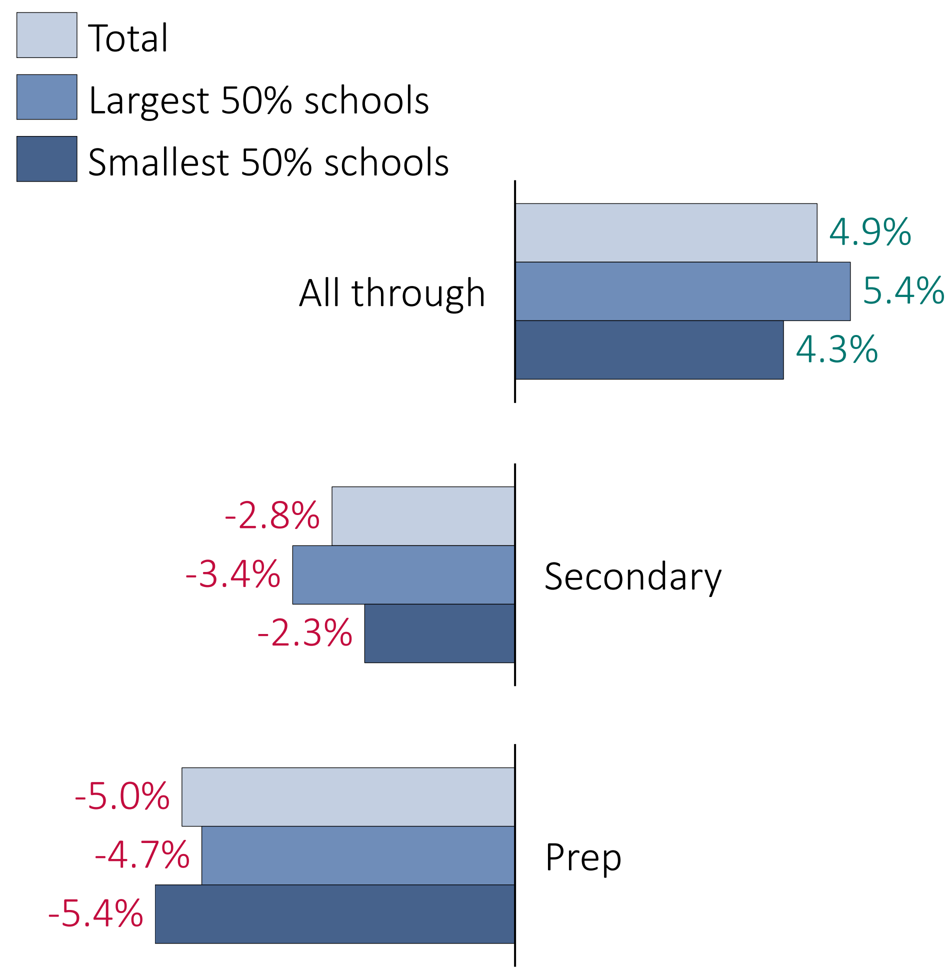
- Driver is complexity as much as economies of scale
- Still fragmentation (only 10% groups) held back by industry structure
- Increasing demutualisation
- For-profit groups struggle to find city or-town-based senior/ all through schools to acquire
- Not-for-profit mergers first port of call for seniors

Smaller schools and preps will suffer most, providing share gain opportunity for survivors

Independent school enrolment ('16-22)

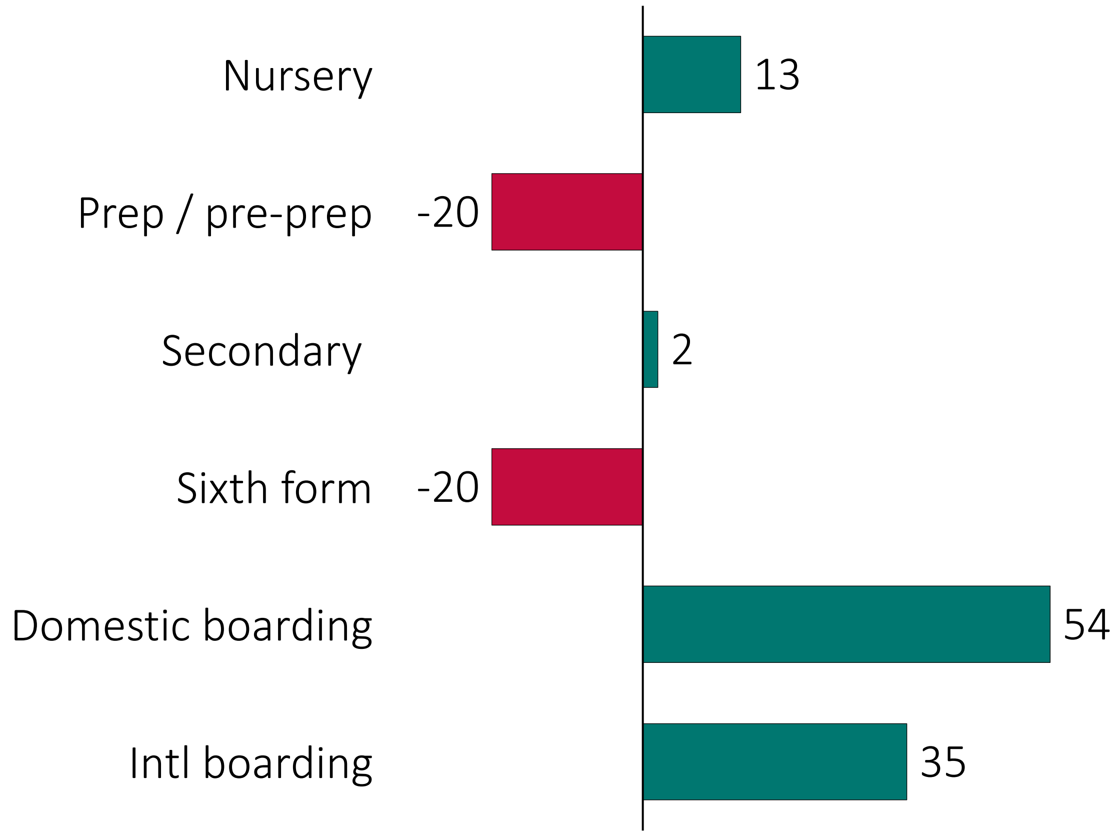


Independent school enrolment change ('20-22)



Schools can be complex entities with multi-layered positioning in their local catchments

All through day/boarding school: Net Promoter Score (NPS) by proposition

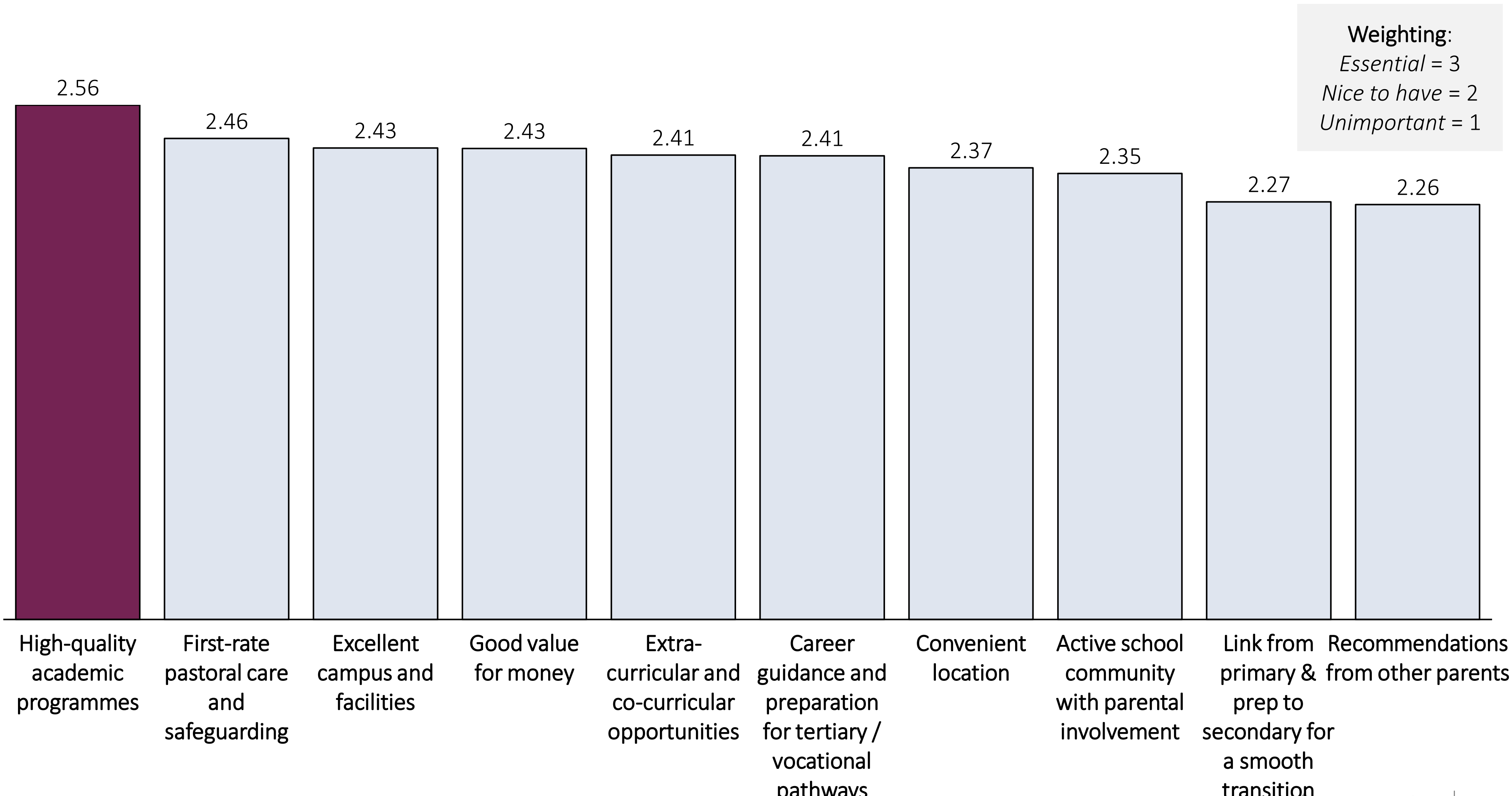


- Different parents' value perception
- Different catchments
- Different competitor sets
- Different growth and performance trajectory

It's all about detailed understanding of the school's local market and relative competitive position, proposition by proposition

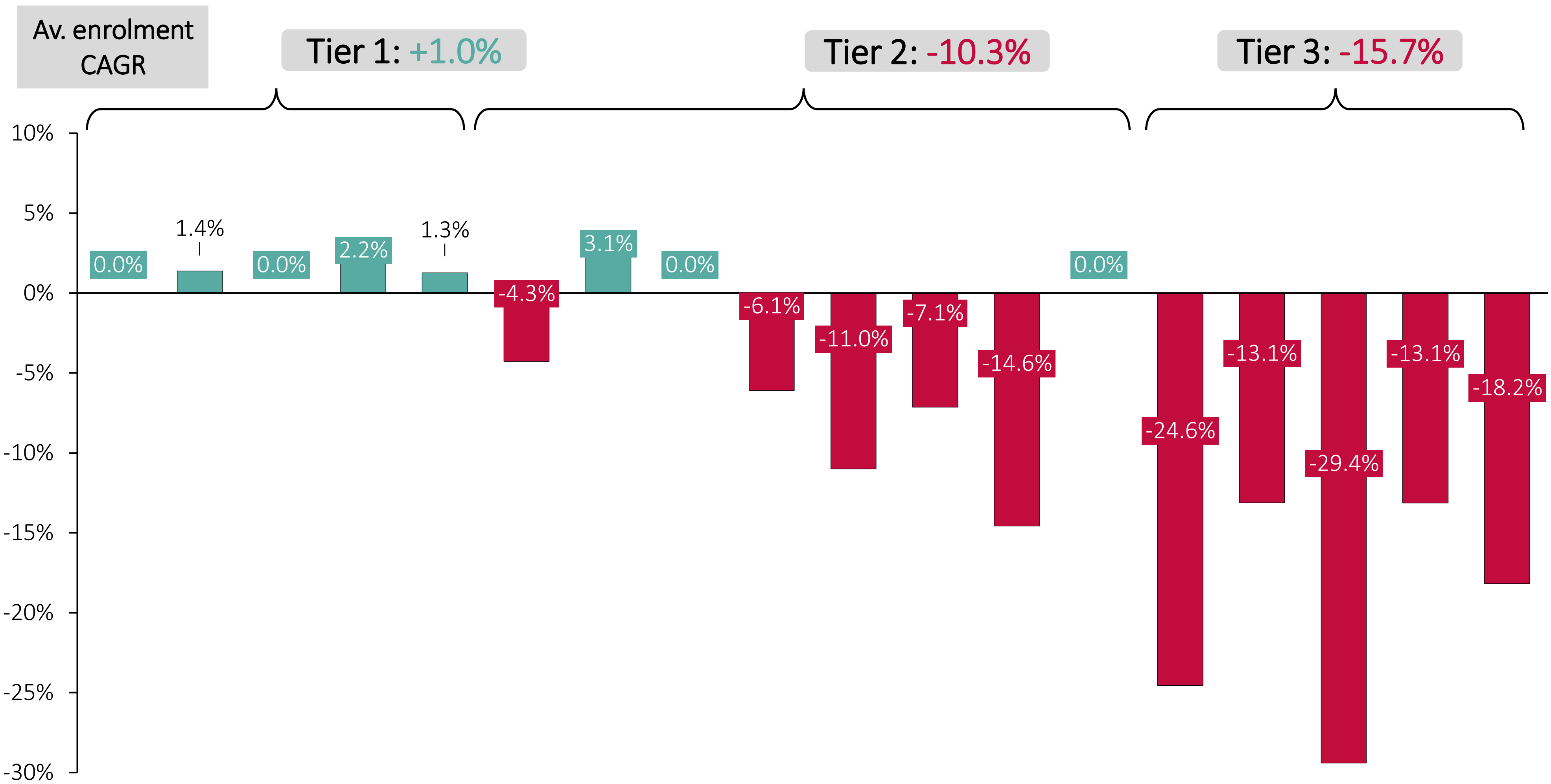
Academic quality is the most important criteria for parents when selecting a school

Parents' school selection criteria (N>500)



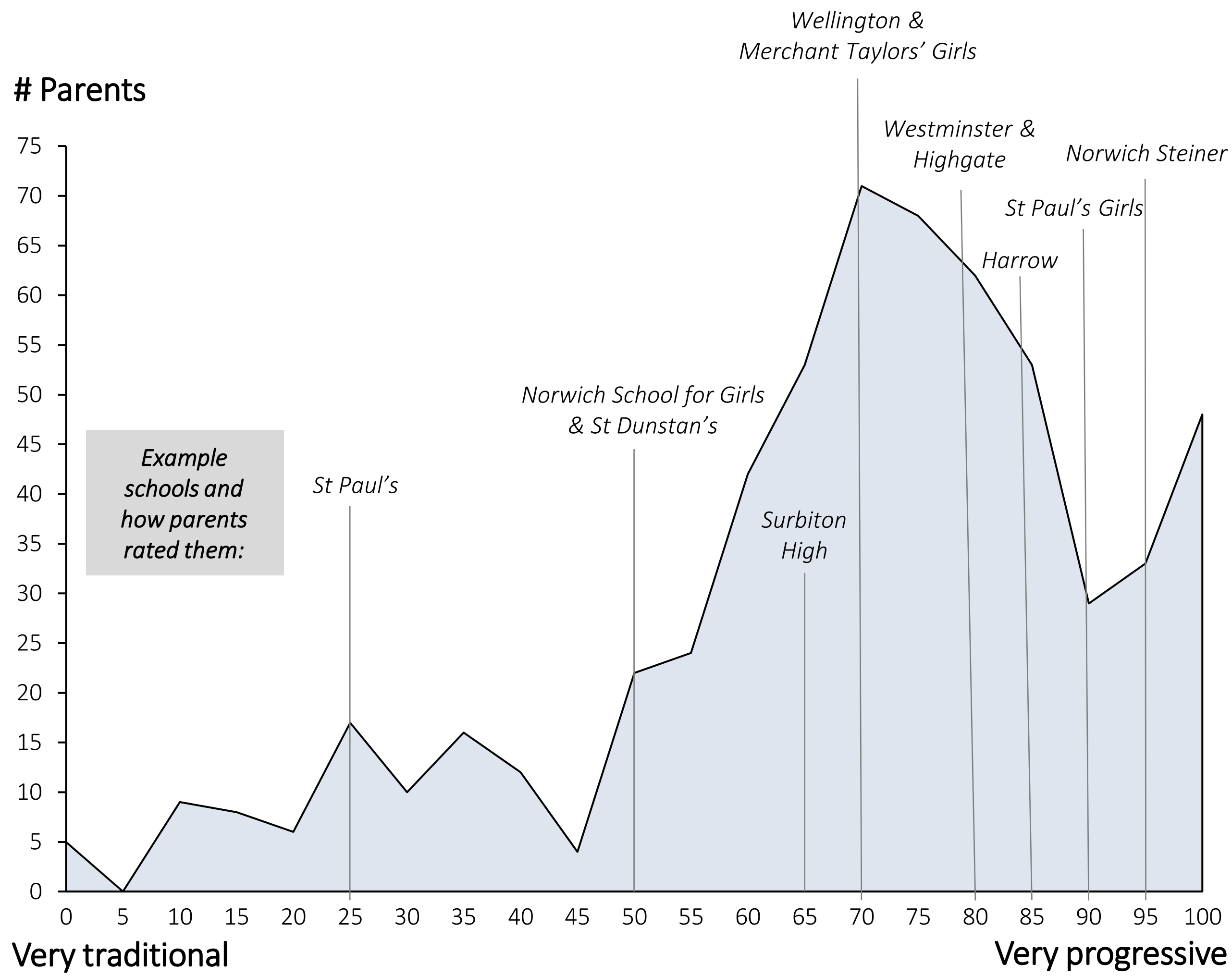
Schools are tiered by quality and price with lower tiers exposed to demand shocks

Year 6 girls’ enrolment 2021 over 2020



Segmentation is driven by price and academic quality but schools have scope to differentiate by character and ethos

Parents' perceptions of school as traditional v. progressive



- Primary segmentation by academic quality and price (after proposition/offer is defined e.g. day/boarding/co-ed/year groups served)
- Some important niches: performing arts, music etc.
- Academic options include selectivity, IB, dual curriculum
- Traditional/international / progressive distinctions are increasingly blurred - progressive is the new norm
- Key to positioning is how school can differentiate vs. its core competitor set (6-12 schools)
- Key differentiation by character & ethos (Gordonstoun example)

Lever 1: Reconfiguring a school's offer can increase scale and capture larger slice of demand

Reconfiguration strategies

1) Add a nursery
2) Extend year groups inc. via M&A (absorb a prep)
3) Increase form entry
4) Go co-ed
5) Add day pupils to boarding
6) Convert boarding to flexi/weekly
7) Add boarding pupils to day

Case study: Francis Holland School

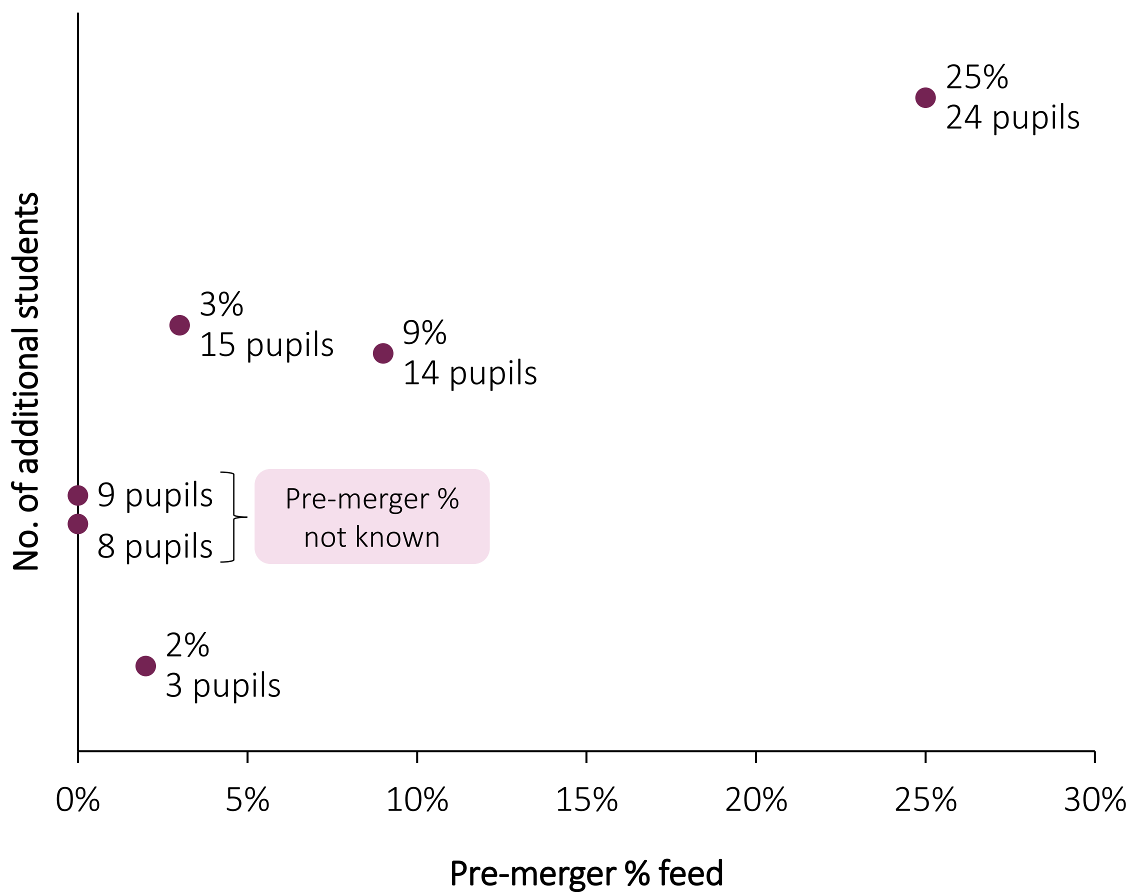
Francis Holland in London added 7,000 sq. ft, (15 classrooms) and increased enrolment from 280 to 570 in their Sloane Square senior school.

The junior school is planning to move to two-form entry in the junior school once new space is secured.

Use as check-list. If not doing it, explain why not? (NB not all relevant to all schools)

Senior schools absorbing prep schools is a proven successful strategy

Impact on feed of selected prep acquisitions

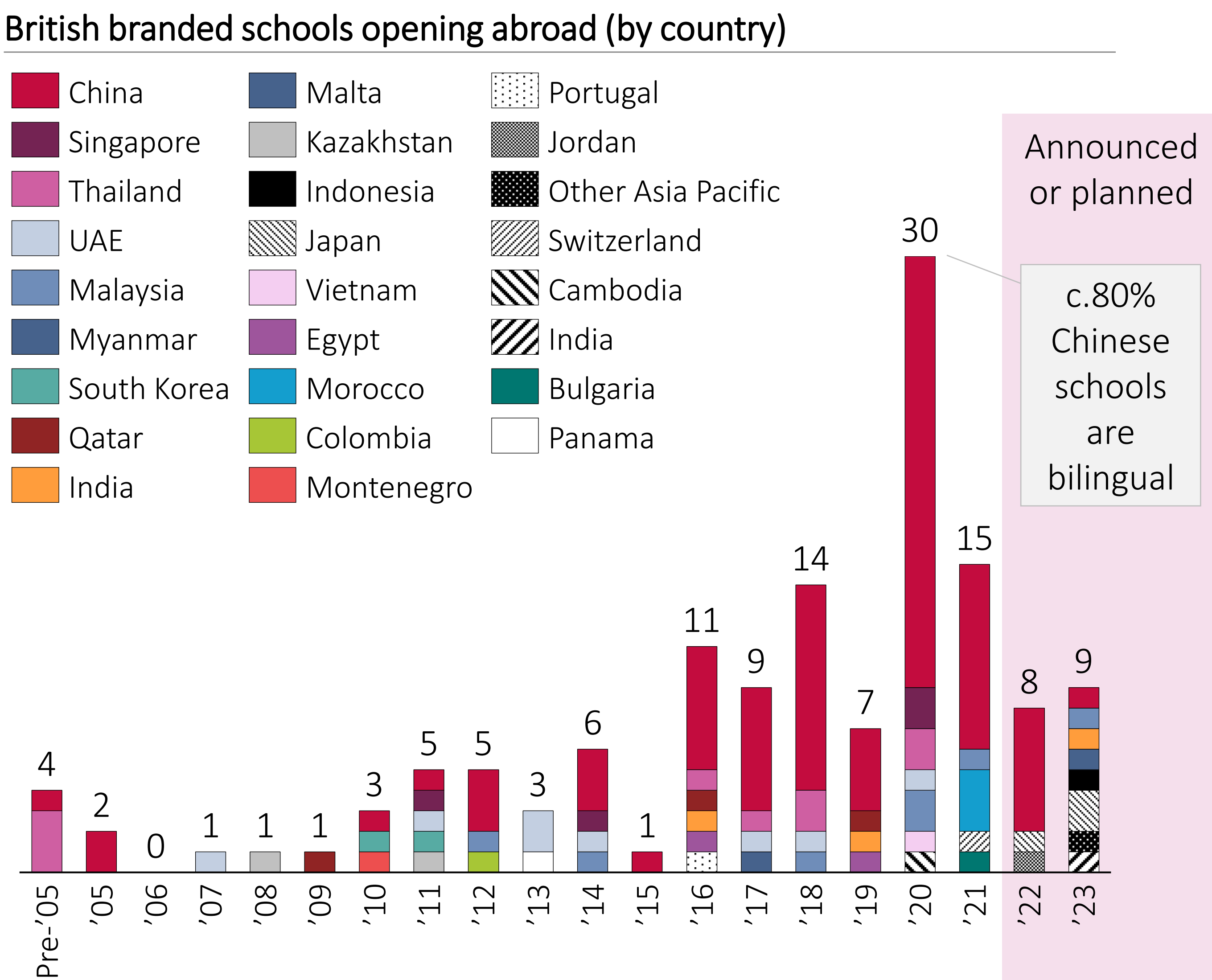


- Defensive and offensive strategy
- Benefits of scale and expertise
- Proven increases in feed
- Careful management required (parents, teachers etc.)
- Reputation of the senior school is critical

Lever 2: Diversification can play an important role in securing a school's future

	Capital	Time frame	Capability	Materiality	Likelihood of success
Buy/build a new school	High	Long	Low/Med	High	High
Go international	Low	Med	High (outsourced)	Med	High
Develop online school or courses	Med	Long	Low	High	Low
Sell curriculum resources	Low	Short	Low	Low	Low
Other (vocational, language schools, summer schools etc.)					

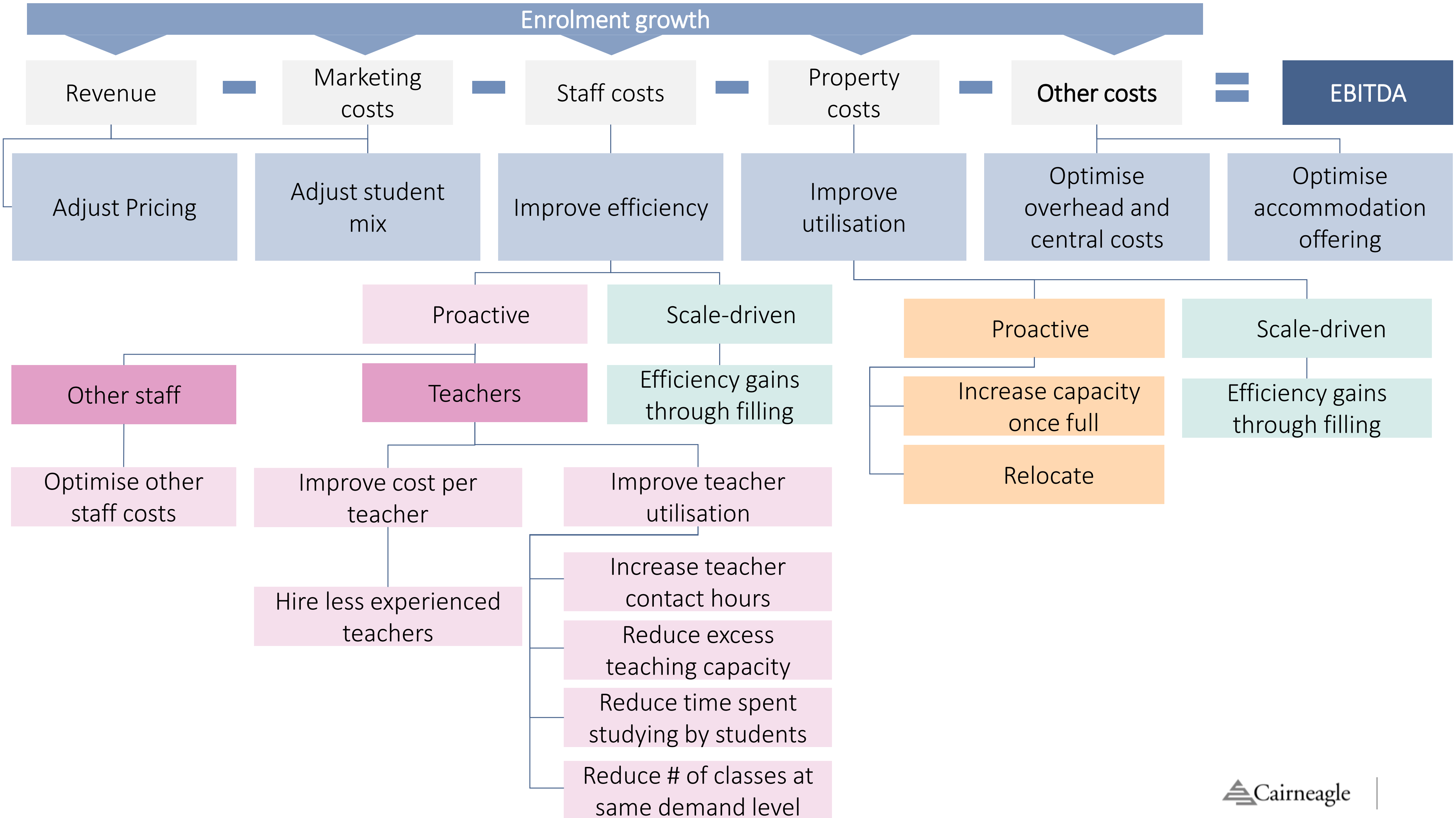
There is still an opportunity to partner in opening an international school



- Window for international is still open – though competitive for weaker brands
- China has peaked but other countries represent opportunities
- Franchise is the low-risk route taken by virtually all British brands
- Partner choice key
- Materiality per school modest but can grow number of schools over time

Lever 3: Efficiency and optimisation gains can be had across the whole school value chain

Profitability driver tree



Supervised Online Learning On-Premise (SOLO) may be a lever to improving teacher productivity and cost

Example timetable

Using SOLO for 50% of student time reduces the staff required from 7 (6 plus back-up) to 4/5

	Lesson 1	Lesson 2	Lesson 3	Lesson 4	Lesson 5	Lesson 6
Class 1		Teacher		Teacher		Teacher
Class 2	SOLO	Teacher	SOLO	Teacher	SOLO	Teacher
Class 3		Teacher		Teacher		Teacher
Class 4	Teacher		Teacher		Teacher	
Class 5	Teacher	SOLO	Teacher	SOLO	Teacher	SOLO
Class 6	Teacher		Teacher		Teacher	

Complex implementation

- Degree of SOLO
- Supervision number/quality
- Hardware and software
- Curriculum integration
- Physical space

One known implementation of SOLO is from Peruvian private group, **Innova** with 60 schools operating 70% in class /30% on-line, but not yet seeking productivity gains

The cost and performance management challenge

Charity-owned schools could be run much more efficiently and profitably … without compromising educational outcomes or the school's brand

Major change management capability is required – aligning parents, staff, senior leadership and governing bodies on a vision and a plan – and is the only way to guarantee success

Alongside reconfiguration and diversification, do charity-owned schools – heads, governors, SLTs - have the will and energy to zero-base their costs and examine rigorously all aspects of their operations to drive performance improvement?