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Testing & Education Support Industry Analysis

The testing and education support industry can be understood by reviewing the services it provides, the overall structure under which it operates, and its outlook for the future.

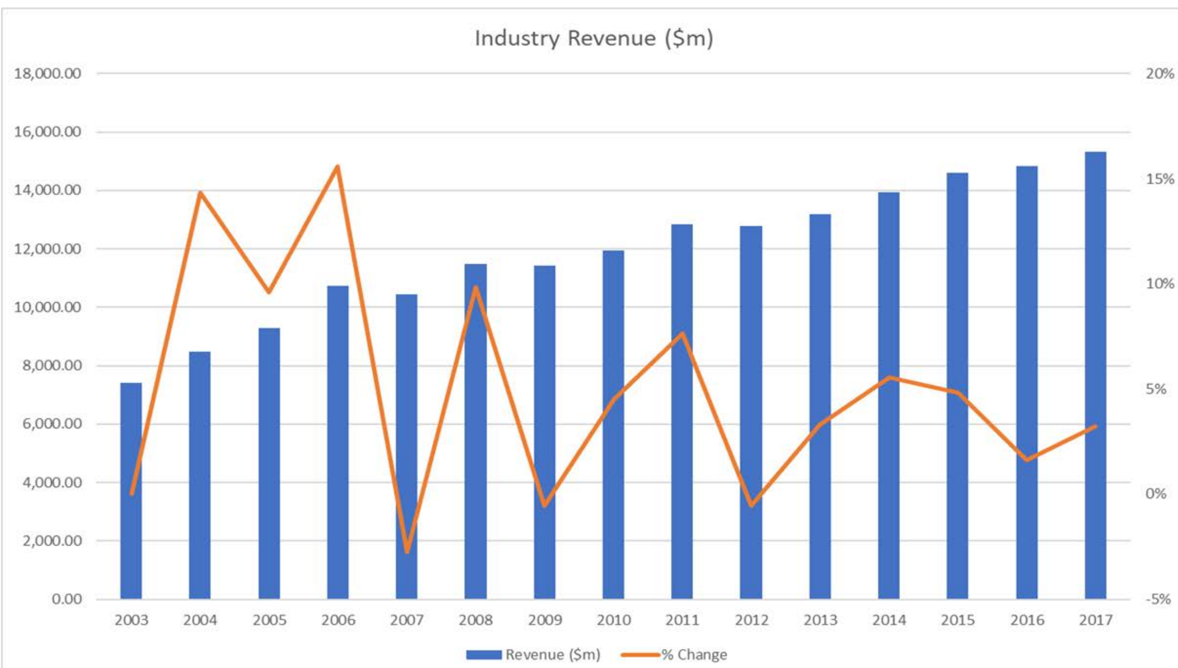
The general definition given by IBISWorld for this industry is:

> Operators in this industry provide non-instructional support services for the education industries. The major segments of this industry are educational testing services and educational consultants. This industry does not include computer software designers that develop education support software.

As the definition states, firms in this industry do not provide educational instruction but rather provide support to those institutions that do provide such instruction. This industry provides virtually no physical products. Nor does it provide services for the unemployed or disabled, and it does not provide cognitive assessment testing. Its main roles are to provide standardized test delivery and support, educational consulting, textbook development, and online homework. Firms in this industry also manage study aboard and foreign exchange programs, and school busing.

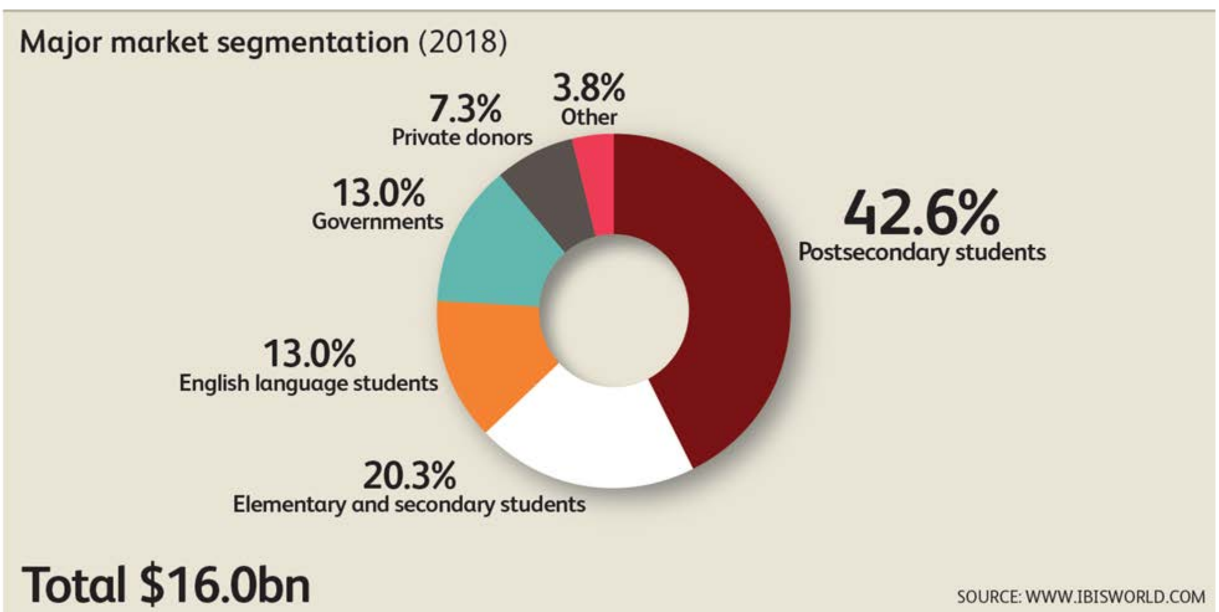
In terms of income generated, Educational Support Services (ESS) account for the largest part of income at 35% of the total. ESS includes: textbook development, test preparation, and online courses. The next largest income generator is from creating and administering of tests (e.g. GRE, SAT, ACT, etc.). That accounts for another 19% of the income. Another 14% of industry income comes from government contracts and private donations. Professional development and foreign exchange programs generate another 12%, while a final 10% comes from educational consulting and 10% from other.

As indicated in the chart below, overall industry revenues have been growing at about a 5% rate from 2003 to 2017; starting from a total of $7,900M in 2003 to $16,000M in 2017 (on average $11,900M per annum). Notice the decline in revenue in 2007 before the start of the Great Recession in December 2007. Revenue rebounded and held steady through the recession which ended in June of 2009. This suggests that the industry can be counter circular. Overall, however, revenue growth appears relatively stable.



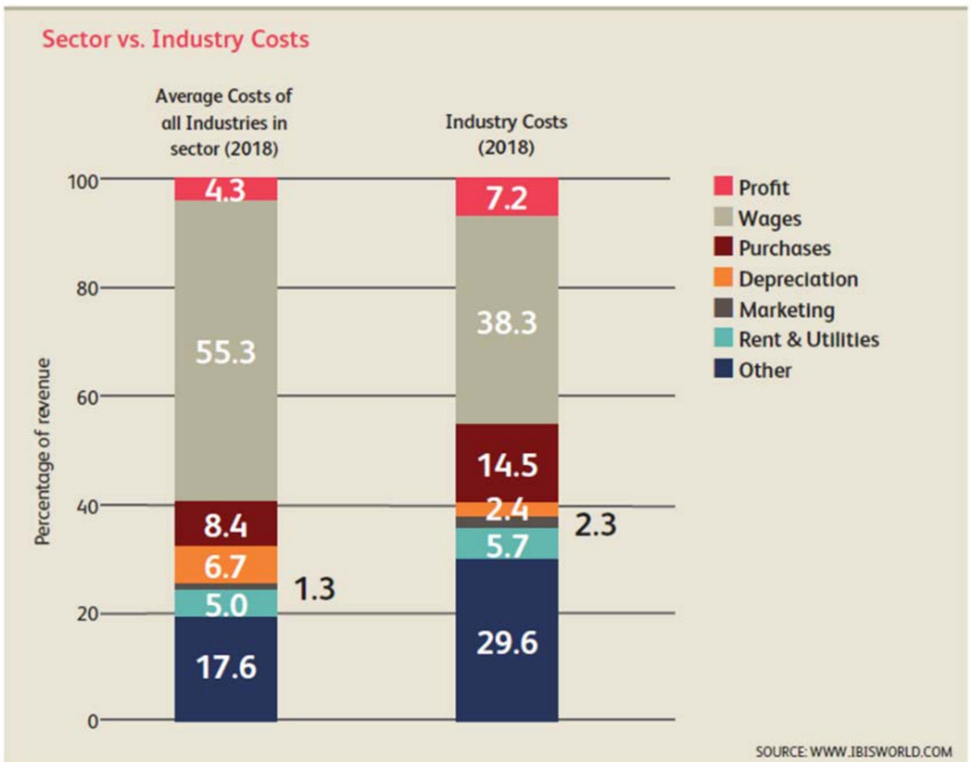
The upstream enterprises to this industry include book publishers, commercial leasing companies, and software publishers; while the downstream enterprisers include consumers, universities / community colleges, and public / private schools.

Major Consumer Segments for this industry include: 1) Postsecondary students - consuming preparation for admissions tests and test administration services; 2) Elementary and secondary students- consuming educational tests administration services, guidance counseling, and school busing services; 3) English language students – mostly consuming administration of the English as a Foreign Language (TOEFL) test services; and 4) Government agencies – consuming services associated with the development and administration of various assessments. Below is a summary of market segments and the percentage each segment represents in terms of total revenue:



Profits within this industry are limited by the large number of highly competitive small firms. Profits represent 7% of total revenue. The industry, being of a service nature, has wages as its major cost component representing 38% of total revenue. Wages can vary considerable (e.g. highly paid consultants versus lower paid test proctors). The average wages for 2017 were $49,000 per year.

As the average national wages for a high school graduate was $37,000, it appears that employees of this industry are likely more educated. Purchase cost are nearly 15% of total revenues. Purchases for developing and acquiring training materials and equipment have been increasing over the last years as the industry is transitioning to online content. Below is a graph of industry profit and costs as a percentage of total revenue and a comparison to the average cost of all industries in this sector:



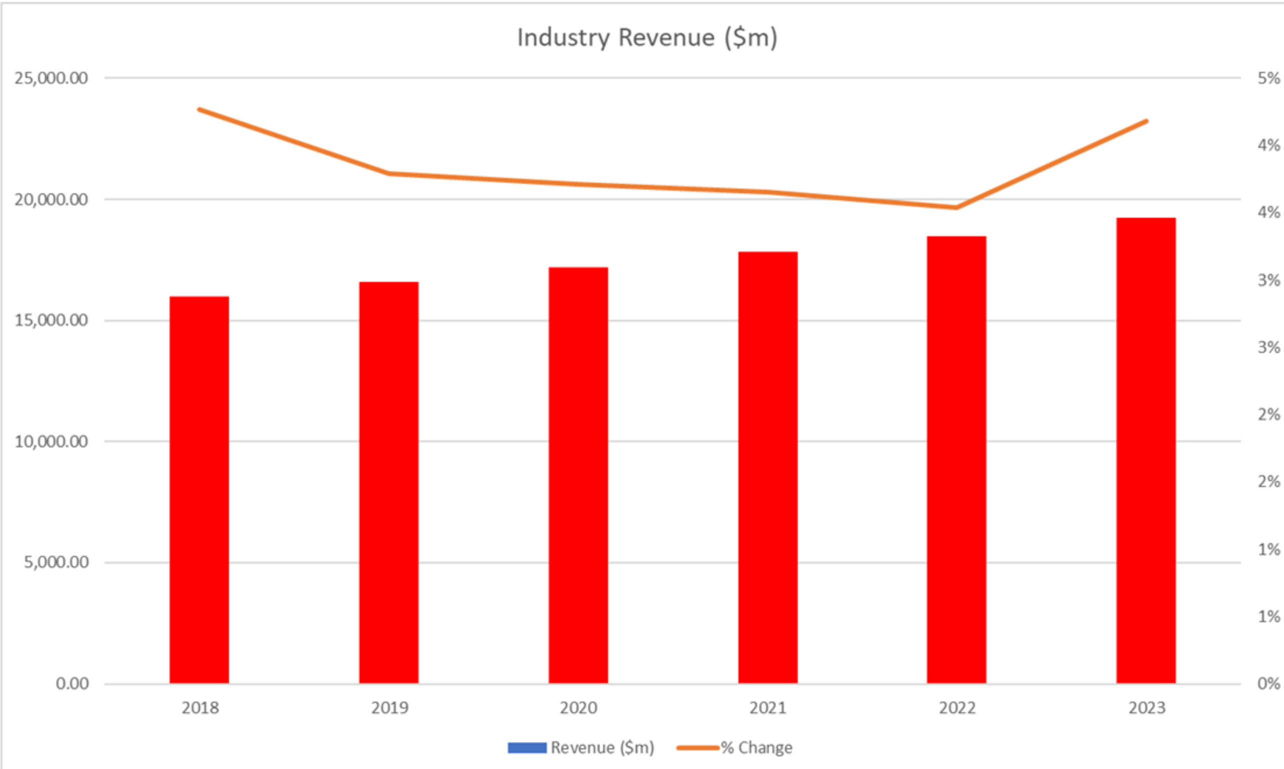
During the period from 2012 to 2017, the average number of firms within this industry was about 8,000 which employed 107,000 people. As these figures indicate, with an average of only 13 employees per firm, the industry is dominated by a large number of small companies. According to the US Census data, 67% of the firms employ fewer than 5 workers. In general, firms are located near major population centers.

Although IBISWorld classifies this industry as having a low concentration of firms, about 40% of the industries total revenue is generated by 4 firms. The two largest are Pearson PLC, 24% of total revenue, and Educational Testing Service, 12%. The other two companies are ACT Inc. and American Institute for Foreign Study, with 3% and 1%, respectively. Pearson PLC, is one the world's largest publishers of education textbooks. They are located in London but 60% of the company's total revenue is generate within the United States. Educational Testing Service (ETS) is headquartered in Princeton, NJ. ETS provides testing services in over 180 countries and scores more than 50 million tests annually. ACT Inc. offers more than 100 assessment, research, information, and program management services. In a joint effort, ACT and Pearson developed and administrate the familiar Graduate Management Admission Test (GMAT). The American Institute for Foreign Study, organizes cultural exchange programs, and college and university study abroad programs.

Technological change within this industry is moderate. Technology is mostly deployed in the administration of tests and service delivery. Technology has improved the accuracy and timeliness of monitoring and reporting of student information and test results. Technology has also allowed the industry to reach more customers through greater geographical reach.

Barriers to entry are generally classified as medium for the overall industry by IBISWorld. In regards to the guidance counseling, educational support and consulting segments there are no major capital requirements or regulations. Thus that segment is classified as a low barrier to entry segment. However, barriers to entry for the educational testing services are classified higher at medium. This is because of the higher initial capital costs for software and technology infrastructure associated with this sector. In addition, for the testing segment, a few firms hold long-term service contracts which lock out other competitors. Generally, capital requirements are limited to computers, networking, software, and training materials. IBISWorld estimates that less than $0.06 for every $1.00 spent on wages is spent on capital. This compares to about $0.12 spent by the overall US economy and $0.10 within the educational industry segment. Regulation is low because, while some states do regulate the industry, there is no industrywide centralized federal authority.

The industry outlook is positive with IBISWorld predicting a 4% annual growth until 2023. The main factors fueling this growth is the increasing number of service jobs in the US economy requiring increased levels of education. Increasing college enrollment trends and high student-to-counselor ratios. Internet adoption and data speeds, as well as, smart phone applications, are also driving positive growth for the industry. Increasing employment and wages has a positive impact on the industry outlook as more parents can afford to fund their child's academic goals. However, increasing employment also has a downward impact of the industry as more high school graduates are attracted by employment opportunities and away from college. Similarly increasing tuition also negatively impacts the future outlook. Again, overall the outlook is positive and, as shown below, IBISWorld predicts that by 2023 the industry's total annual revenue will be $19+ billion.



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