

STRATEGIC PLANNING WITHIN THE CURRENT ESL INDUSTRY

by

Bob Korzeniowski
B.Sc., Brandon University, 1985

PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF
Master of Business Administration
EMBA Program

in the Faculty

of

Business Administration

Bob Korzeniowski 2003
SIMON FRASER UNIVERSITY
August 2003

All rights reserved. This work may not be
reproduced in whole or in part, by photocopy
or other means, without permission of the author.

APPROVAL

Name: Bob Korzeniowski
Degree: Master of Business Administration
Title of Project: Strategic Planning Within the ESL Industry

Supervisory Committee:

Dr. Ed Bukszar Jr.
Senior Supervisor
Faculty of Business Administration

Dr. Mark Selman
Adjunct Professor
Faculty of Business Administration

Date Approved:

8-11-03

Partial Copyright License

I hereby grant to Simon Fraser University the right to lend my thesis, project or extended essay (the title of which is shown below) to users of the Simon Fraser University Library, and to make partial or single copies only for such users or in response to a request from the library of any other university, or other educational institution, on its own behalf or for one of its users. I further agree that permission for multiple copying of this work for scholarly purposes may be granted by me or the Dean of Graduate Studies. It is understood that copying or publication of this work for financial gain shall not be allowed without my written permission.

Title of Thesis/Project/Extended Essay

Strategic Planning Within the Current ESL Industry

Author: _____

Bob Korzeniowski

Date

Aug 5/03

ABSTRACT

In recent years the English as a second language (ESL) industry in Vancouver has faced growing rivalry due to increased competition on both a local and international level. An increasing number of new entrants, stronger competition and the homogeneity of the product, that of a period of time studying ESL, has caused many schools to turn to cost-based strategies.

Winfield College, an ESL school in downtown Vancouver, is currently using a cost-based strategy and is in the process of examining the feasibility of a future differentiation strategy. However, given the difficulty of the current ESL market situation, the college is facing serious concerns due to a lack of available resources. While it is worth investigating the existence of value-added benefits that could possibly increase revenues and provide sustainability for ESL schools through differentiation strategies, the college must first address its short-term operating concerns by implementing a survival strategy before being able to focus on a strategy aimed at long-term growth and success.

DEDICATION

Dedicated to my wife, Judy, whose endless support made this possible.

TABLE OF CONTENTS

Approval	ii
Abstract.....	iii
Dedication	iv
Table of Contents	v
List of Figures.....	viii
Chapter 1 Overview of Winfield College and the ESL Industry.....	1
1.1 The ESL Industry	1
1.2 Firm Overview.....	2
1.3 Product Overview	4
1.4 Target Markets.....	7
1.5 The Concern	9
Chapter 2 Value Chain Analysis	11
2.1 The ESL Industry Value Chain	11
Chapter 3 Industry Analysis.....	18
3.1 Recent Trends in the ESL Industry	18
3.2 Current Situation in the ESL Industry	19
3.3 Threat of New Entrants (High).....	21
3.4 Supplier’s Bargaining Power (Low).....	26
3.5 Customers’ Bargaining Power (High).....	28
3.6 Threat of Substitute Products (Medium)	31

3.7	Rivalry Among Companies (High)	34
3.8	The ESL Industry in Vancouver: Future Trends	37
3.9	Key Success Factors	40
3.10	Summary of the ESL Industry Analysis	41
Chapter 4 Internal Analysis		43
4.1	Current Strategy.....	43
4.2	Primary Activities.....	43
4.3	Supporting Activities.....	50
4.4	Organizational Structure of the Firm.....	57
4.5	Financial Analysis	58
4.6	Summary of the Internal Analysis of the Firm.....	62
Chapter 5 Key Issues Facing the Firm.....		63
5.1	Market Overview.....	63
5.2	External Influences	63
5.3	Internal Operations	64
5.4	Summary of Key Issues.....	68
Chapter 6 Recommendations.....		69
6.1	Long-term and Short-term Strategic Options	69
6.2	Long-term Differentiation Strategy	69
6.3	Short-term Strategic Options.....	71
6.4	Decision Criteria.....	79
6.5	Short-term Recommendations	81
6.6	Long Term Recommendations	83

6.7 Conclusion.....	84
References.....	85

LIST OF FIGURES

FIGURE 1: ESL INDUSTRY VALUE CHAIN.....	11
FIGURE 2: FIVE FORCES OF THE ESL INDUSTRY	20
FIGURE 3: FIRM VALUE CHAIN.....	44
FIGURE 4: FINANCIAL ANALYSIS.....	61

CHAPTER 1

OVERVIEW OF WINFIELD COLLEGE AND THE ESL INDUSTRY

1.1 The ESL Industry

Travelling abroad to study has always been considered one of the fastest ways to learn another language. Studying English as a Second Language (ESL) has become popular all over the world with schools located in major destinations such as England, the U.S., Canada, Australia, and New Zealand, as well as less popular countries such as Ireland, South Africa and Malta. Schools cater to international students from Asia, Europe and South America.

The ESL industry makes up a large part of Vancouver's economy and with relatively low barriers to entry, the number of ESL schools in Vancouver has been growing constantly. Currently in downtown Vancouver there are about 100 ESL schools in operation. The enrolment in these schools varies from 50 up to 1000 students, with the majority of schools having a student population of 150 or more students. With approximately 15,000 ESL students in the city at any one time and each of them staying in Canada for two to four months and spending about \$1,800 each month on tuition and living expenses, the ESL industry brings a quarter of a billion dollars into Vancouver annually, making it the largest ESL market in Canada, followed by Toronto.

ESL classes are mainly sold through 'education agencies' on a commission basis. For this reason, each college must present itself as an attractive product to these agents, who will then relay the information to potential students. Individual registrations, which come through the Internet, magazines or by word-of-mouth, make up almost 30% of the student population.

The industry is seasonal in nature with the greatest demand occurring in the summer, when it is common for schools to be filled to capacity and temporarily renting additional space to accommodate the demand. Recently, however, Vancouver has seen a large number of new schools opening but a decrease in student numbers for a variety of reasons including the reluctance to stopover in the United States or fly through U.S. airspace since the events of September 11th and the Iraqi war, changes to the airline industry which has reduced the number of flights available in and out of Canada, and most recently, the outbreak of S.A.R.S. in Toronto and its effect on Vancouver due to the extensive media coverage. This has caused increased rivalry resulting in price wars amongst the schools.

1.2 Firm Overview

1.2.1 Vancouver Campus

Opened in 1996 by two operator-owners, Winfield College is a private ESL school operating in downtown Vancouver with approximately 8,000 square feet rented on the ground floor of a four-story office building. The school has 14 classrooms, a computer lab, and four administrative offices. The number of employees varies depending on enrolment, usually with five administrative staff and between ten and fifteen teachers at any one time. Enrolment is seasonal and ranges from 60 to 80 students in the low season (October through December) and normally doubles during the summer months.

1.2.2 Other Campuses

There are two other Winfield College campuses, which operate under the same name but are separate corporate entities, all owned by the same owners. In 2000 the owners opened a small campus in the Czech Republic, “Winfield College Czech”, which has four classrooms and caters to local adults and professionals studying ESL as a hobby, for travelling or for business purposes. This has created some additional opportunities, such as having Winfield College Czech students coming to Vancouver to study during their vacations. The campus is also used to run Teaching English as a Foreign Language (TEFL) certificate programs for native speakers of English, who may fly from England or North America to take the course. The Czech school has been slowly growing and is currently reaching the point where it may soon start to show net profit.

In the summer of 2002 the owners purchased “Canada House”, a struggling ESL school in Toronto, with the objective of maximizing economies of scale through joint marketing and shared administrative costs. Continuing to use the name “Canada House,” all marketing materials immediately started to carry both schools’ names. The Toronto ESL industry had a slow summer in 2002 due to a reluctance to travel after the events of September 11th, the World Youth Day event which reduced flight availability to Toronto and the demise of Canada 3000 airlines, which had offered a selection of direct flights from Europe. After the purchase, administrative staff was reduced by more than half with most of the administrative duties getting shifted to the Vancouver campus. In early 2003 the school was showing signs of a turn-around until the recent outbreak of S.A.R.S., which has dealt a blow to the entire Toronto business community, including ESL schools.

1.3 Product Overview

1.3.1 *ESL Classes*

ESL classes are intended to be intensive immersion classes and therefore usually only consist of groups of ten to sixteen adult learners. The school either supplies published textbooks to the students or relies on each teacher to create or copy materials to use in class. Winfield College offers part-time (half-day) and full-time ESL classes using a set curriculum based on published textbooks, with a maximum of twelve students per class. The focus of the classes tends to be on practical and functional language in a relaxed environment with emphasis on speaking and listening. The advantage of studying in an English-speaking country is maximized through contact activities in the community.

The actual product, a period of time studying English, is very difficult to differentiate in the eyes of consumers, causing them to often make decisions based on either the perceived values of the schools or else the price. Schools will aim to differentiate their classes through class size or specialized course offerings such as pronunciation or grammar, but often buying decisions are made based on factors such as school facilities, mixture of nationalities or atmosphere at the school. It is important to note that, similar to the airline industry, the product can be considered as very perishable, as any seat that sits empty for the day can never generate revenue for that day again.

The fees at Winfield College are comparable to other schools in Vancouver, falling neither in a very high nor very low range. A sample of schools showed a range of \$9.25/hour to \$15.44/hour with Winfield charging \$10.85/hour and the average being \$11.22/hour. ESL classes make up more than 60% of the school's total gross income.

1.3.2 TEFL Programs

In addition to ESL classes, Winfield College also offers training for both English-speaking and international students to become ESL teachers by obtaining a Teaching English as a Foreign Language (TEFL) certificate. Native speakers of English may take a one-month fulltime, three-month part-time evening or a distance education course, any of which give them the basic skills needed to teach ESL to international students in a private ESL school either in Canada or abroad. The number of schools offering TEFL training is slowly growing, however there are only about ten schools in Vancouver offering TEFL courses at this time. This market is still growing as the number of Canadians interested in going overseas to teach English is increasing, especially in the current sluggish North American economy. TEFL classes are marketed directly to individuals in North America through newspapers, magazines and the Internet, and make up about 25% of the school's total income.

Often having a lower proportion of disposable income compared to international students, many potential North American students do extensive research before selecting a TEFL program. The consistency of these programs varies widely from institution to institution and so potential students often collect information through phone calls or e-mail. This gives the staff the opportunity to explain the benefits of the courses directly to potential customers. Students make decisions based on the possibility of obtaining work as an ESL teacher upon graduation, either in Canada or abroad. They consider the quality of the instruction, which takes into consideration the class size, the number of instructors per class (two teachers provide more direct attention), the instructors' teaching credentials and experience, and the length of a practicum, if one is included.

Potential students also inquire about their classmates' backgrounds, the availability of flexible start dates, school credentials and price.

Recently there have been many new entrants to this market, but having offered the course since 1997, Winfield College has the advantage of being considered one of the more reputable programs. Approximately 50% of new students are through alumni referrals. The program offered is considered to be of higher quality due to the intensity of the course, experienced and qualified instructors, the inclusion of an on-site authentic practicum and the success rate of graduates finding work in Canada and abroad. There is a wide price range for these programs, starting at less than \$700 for a cheaper program with more students and a single instructor, and therefore less contact time, and possibly with a mixture of fluent and non-fluent speakers of English, which slows down the pace of the program and therefore lessens the quality of it. The most expensive programs cost about \$2500 and are overseen by Cambridge University, which then grants each certificate with the Cambridge "seal of approval", a very reputable name in the field. Winfield's programs, with small class sizes, two trained instructors, an authentic practicum and a long, solid reputation are often considered very good value at \$1295, and are almost always full.

1.3.3 Homestay Accommodation

The balance of the school's revenues is generated by arranging rooms in the homes of Canadian families. This requires visiting the families to ensure quality and then organizing the logistics to ensure that the students are met at the airport and treated well upon their arrival and throughout their entire stay in Canada. Initially, this was out-

sourced, however the school started to handle it in-house to increase revenues and maintain greater control over the quality of the homestays. The arranging of homestays now provides a regular source of income to the school as 95% of students arriving directly from overseas prefer to have accommodation organized for them, because it provides them and their parents a sense of safety and security.

1.4 Target Markets

The ESL industry in Vancouver serves two main markets: the “international” market and the “local” market. Students, in general, range in age from 20 to 30 years old and come from upper-income backgrounds in their own countries. The majority of the students have completed an undergraduate degree or are currently completing one and are taking time off from their studies. About one-third of the students have travelled on shorter trips before, for one-week vacations, for example, but coming to Canada is usually their first extended trip overseas. Unlike North American families, the students come from countries where children live at home longer and parents have a much stronger influence over the children’s decisions at a relatively older age. For this reason, a lot of students, although they are in their late twenties, will be getting financial help from their parents, who may ask for their children’s report cards to be sent home regularly.

The ‘international market’ is made up of students who learn about the school while they are still in their home country, then register and pay for the majority of their studies and accommodation through an education agency in their home country before arriving in Canada. These students register and pay in advance for relatively long

periods of time, usually two to four months. With the recent popularity of the Internet and relaxed restrictions on student visa regulations for some countries, it is now becoming more popular for students to fly to Canada without having already chosen a school. They arrive with a plan to visit local agents and register for classes in Vancouver to get a discount that local agents have advertised on the Internet.

The 'local market' is made up of international students who have already been living in Vancouver and are looking for a new school to study at. These students have usually already studied at an ESL for a while in Vancouver and are looking to extend their stay and study longer, but would like to change to a different school. They shop around to find the school most suitable for them and prefer to pay on a monthly basis in order to give them the flexibility to stop classes or change schools every month.

There are two main channels that students may use when they register for their classes at the school:

- i) Directly: Students may apply directly to the school via Internet, mail or fax from their home country (international market) or may visit the school in person if the students are already in Vancouver (local market).
- ii) Agency (retail): A student may use the free advice of an "educational agent", whose function is somewhat the same as that of a retailer. The student is counselled by the agent as to which school might be most suitable, and the agent then completes the application for the student, collects the fees and handles all the paperwork with the school. For this service, the agent receives a commission, usually between 20% and 30% of the tuition fees, for selling classes to the student. As the local market becomes increasingly more competitive, it is not uncommon for the agents to pass

along part of their commission to the students, a practice referred to as “discounting”. As students, especially local ones, are price-sensitive, this practice ensures that they will not register directly at the school. A school that offers discounts directly to the students takes the risk of being perceived as a direct competitor and therefore may be ostracized by the agents’ community, which will then refuse to refer students to that school. It is now becoming common for students to go price shopping at different agencies to get the largest discounts. This has resulted in price wars between the local agents.

1.5 The Concern

Winfield College is now in a much more competitive environment than when it opened seven years ago. The ESL industry in Vancouver is becoming saturated with schools operating on low profit margins. When the college first opened, this was not the case, and the organization did quite well with a “stuck in the middle” strategy: following the status quo by imitating competitors and being reluctant to innovate or take risks. This has slowly become a cost-based strategy, as there is growing competition in the industry. The college tends to imitate competitors’ products without any great modifications or improvements, which worked well in a market with an abundance of customers and far fewer schools. However, in recent years, the school, and the industry in general, has been moving more towards a cost-based strategy which is leading the college towards low revenues and cash-flow concerns. Under the current hostile market conditions this strategy must be revisited and changed in order for the college to be successful.

In the short-term, the college must consider whether or not the company is a viable business, given the environment that it must operate in and its current financial position. Should long-term sustainability seem feasible, management must devise a survival strategy in order to successfully continue operations until the low season begins to end in early 2004. Once the company has returned to a more financially stable position and the environment of the industry returns to normal, the company can investigate whether or not implementing a differentiation strategy would lead to greater success.

CHAPTER 2

VALUE CHAIN ANALYSIS

2.1 The ESL Industry Value Chain

The ESL Industry caters to international students, usually between 20 and 35 years of age, who come to Vancouver to study English as a Second Language for two to four months on average. The three main services that they purchase are the on-site courses, extra-curricular sightseeing activities and their homestay accommodation with an English-speaking family. Student recruitment is done through marketing and promotions as well as through education referral agencies that promote the school to students on a commission basis. (See figure 1, “ESL Industry Value Chain”.)

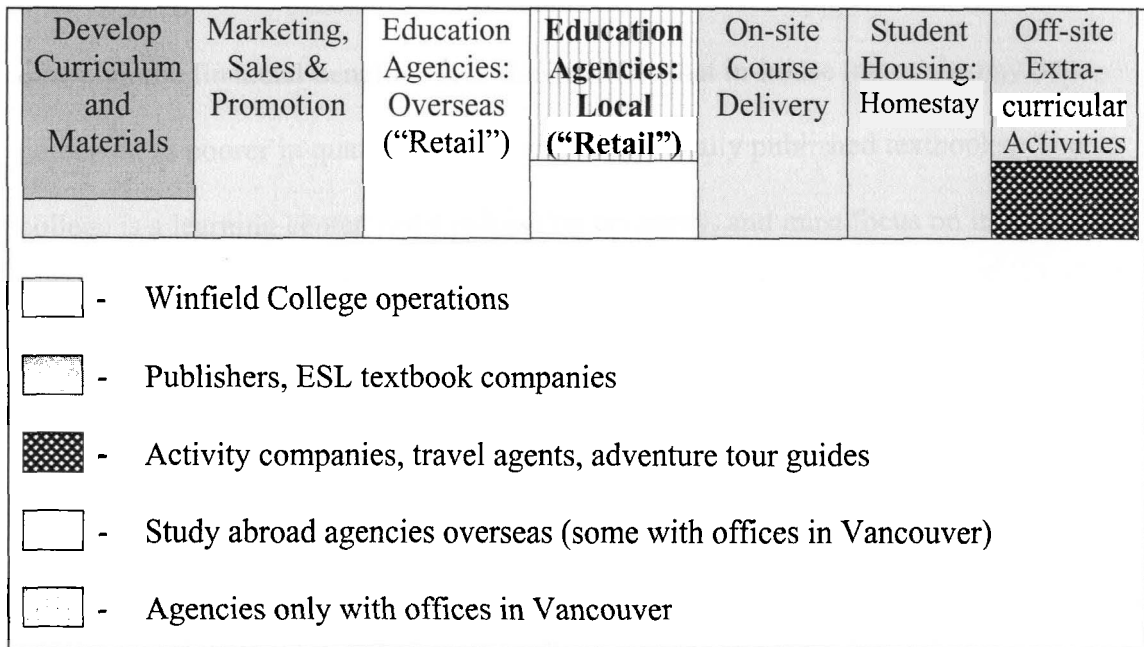


Figure 1: ESL Industry Value Chain

Used by permission of Ed Buzsca. Class notes, Simon Fraser University, 2003

2.1.1 Curriculum and Materials Development

This section of the value chain consists mainly of ESL textbook publishers, such as Oxford or Cambridge Press. A school's curriculum is typically based on these textbooks, which are designed specifically for ESL classes. They include a main student textbook with supporting materials such as teachers' guides, workbooks, videos, cassette tapes and CD's. Winfield has adopted a text for each of its classes but has also undertaken the preparation of additional materials such as stand-alone modules and standardized tests to be used in conjunction with its curriculum.

Some schools in the industry have vertically integrated this section by writing and printing all of their own materials in-house. Winfield College does not see great benefits in integrating these operations, as the amount of resources required to do so would outweigh the financial benefits. It is also possible that in-house materials may be perceived as poorer in quality than that of professionally published textbooks. The college is a learning center, not a publishing company, and must focus on its core competency.

2.1.2 Marketing, Sales and Promotion

Almost all organizations in the industry handle this component internally. One of the main marketing activities includes attending overseas trade shows to either promote directly to the students or to meet with international agency representatives. These shows are arranged by companies that exclusively organize trade shows for a variety of industries, or else by international agencies in their own home country. It is extremely rare that a school would organize a trade show either in Canada or overseas. On some

occasions, a school may choose to hire a foreign company to represent the organization at a trade show in that country in order to save time and travelling costs.

At Winfield College, and in general, trade shows are attended by employees of the college to ensure that information provided is accurate. The college views this as an important part of its marketing plan and over time has gained competence in these activities. In some situations the college has hired an outside company to represent the school at a trade show, however the results have been poor. This has only been done in countries where, at that time, the potential for recruiting students was low but showed growth potential and the college wanted to start to have a presence in that market. Hiring a foreign representative achieves the goal of introducing the college into the area at a much lower cost than sending an employee from the school.

The majority of advertising is done in overseas magazines, newspapers and travel journals and the ad arrangement, placement, typesetting and translation is usually included in the price of the ad. For this reason it is rare to outsource to an advertising company as only a rough initial design or concept of the ad is required from the school. The rough design is sent to the publisher and is completed professionally in-house by the magazine.

2.1.3 Education Agencies: Local (“Retail”)

Local agencies focus on international students in the city that have already studied for a while and are looking to study at a different school in the same city. They receive a commission from the schools, a portion of which they often pass along to students in the form of a “discount” in order to encourage them to register through their agency.

Recently, this practice of discounting by local agencies has caused a price war reducing their revenues as students shop around for agencies offering the highest discounts.

Schools prefer that students register directly at the school, but as they can get cheaper prices from a local agency, students will almost always use their services. For this reason, schools do not enter into this section of the value chain and there is often hidden animosity between the schools and the local agencies. Some of the local agencies are owned and operated by their overseas agencies that provide additional services and support for their students who originally registered in their home countries.

It is not feasible for the college to open a local agency as the school campus serves as an office for students to visit and register at. The college has agreements with some of the local agencies and they provide a number of new students to the college on a regular basis.

2.1.4 Education Agencies: International (“Retail”)

International education agencies are offices outside of Canada that counsel students on overseas study opportunities and promote schools’ programs on a commission basis. They may simply help the student with the application process, or offer a full range of services such as selling plane tickets, applying for passports and collecting and forwarding tuition fees for the students. These agencies often require an in-depth knowledge of the local market of that country. As students prefer having a variety of options from an agency including a choice of schools, cities and countries, it is rare for a school to open its own office overseas but instead it will form close working relationships with these agencies.

Discounting is not common with international agents mainly due to the fact that the agencies are not as concentrated as they are in Vancouver and students will choose an agency partially based on the convenience of the location in their own city. In some countries, the agencies have formed associations that have agreed not to discount in order to protect their industry. However, as it becomes more common for students to use the Internet to register for their courses both through an agency or directly through a school, the location of an agency is not as important and this is causing some international agents to offer discounts to students.

Winfield College sees these relationships with agencies as being crucial to its business survival and uses a lot of resources to personally visit and form partnerships with these agencies. The college is starting to integrate into this section of the value chain by having individuals from the country represent the college within the country, both to local agencies and directly to students.

2.1.5 On-site Course Delivery

This is the main service provided by an ESL school and is the core competency of the organizations in the industry. It consists of the students arriving at the school and studying in class everyday to improve their English language skills, for an average stay of two or three months. Classes are small in order to emphasize conversational English and an ideal class will have a variety of language groups so that all the students are forced to use English to communicate. Schools often aim to not have more than 25% of one nationality in the school at any one time, but often this policy is overlooked in order to increase revenues. Classes are very practical and focus on using the language in

everyday situations. Teachers strive to make the classes entertaining and use real-world resources such as local TV shows, newspapers and trips to local shops and businesses to help the students become immersed in practical, everyday English. Many of them have studied grammar in their home countries but have never had the opportunity to use it in real-life situations and this is what they are seeking. Winfield College views its delivery of these classes as one of its main core competencies.

2.1.6 Student Housing: “Homestay”

The majority of students, when registering from their home country, request a “Homestay Placement” when enrolling at a school. This service arranges for someone to meet the student at the airport upon arrival and take them to an English-speaking family where they will have a private room and three meals per day while integrating into Canadian life by spending time with the family. Some schools outsource this service while others totally integrate it into their business operations. Winfield College initially outsourced it but soon integrated it into their regular business operations. The service is a good source of revenue for the college and ample resources have been spent on the project to ensure that it runs well. It is often viewed by the students as one of the most important components of their entire study package and therefore must be carefully controlled by the college to ensure quality.

2.1.7 Off-site Extra-curricular activities

Outside of class time, schools provide opportunities for the students to go sightseeing or visit local areas and attractions with an English-speaking leader. Initially,

due to a small student body, new schools may outsource these activities to an activity company that will handle all of the logistics, often signing up a small number of students from several schools in order to make a large group. As schools grow, and the student population is able to support it, it is common for the school to have an in-house dedicated staff member that arranges all the activities.

At Winfield College, the majority of smaller, easily manageable activities are done by the activity co-ordinator or individual teachers, while larger trips with more complex arrangements are outsourced to activity companies. This is an area that should be given more emphasis by the college. It is an important part of the value chain, yet the in-house arrangements could be more carefully organized. The in-house coordinated activities do not have a professional tone to them and may be considered by the students as lower in quality or poorly organized. This is a concern that the college needs to address by either losing some of the revenues from the in-house organized activities and out-sourcing all activities, or by investing more resources into the coordination of activities to raise the quality of them.

CHAPTER 3

INDUSTRY ANALYSIS

3.1 Recent Trends in the ESL Industry

The ESL industry in Vancouver is relatively new with only a few schools that have been around since the early 1980's. Some growth started to occur after Vancouver hosted The World Fair in 1986 ("Expo '86"). The strong growth of Asian economies in the early 1990's fuelled a sharp growth in the industry, with Japanese and Korean students still making up the majority of short-term ESL students in Vancouver. And while the Asian economic downturn of the late 1990's temporarily slowed the industry, by that time other markets such as Mexico, Brazil and Europe were starting to realize Vancouver as a study destination.

The boom in the industry and noticeable success of schools from late 1998 through to 2001 brought expansion by incumbents and a large number of new entrants into the market in Vancouver. As a result of these new entrants in the local market as well as more offerings from international markets, 2002 was one of the first years that there were signs of overcapacity in the local ESL industry.

In 2003, with recent unfavourable world events, in particular SARS, the ESL industry in Canada has seen a large drop in demand compared to recent years. It is expected that many schools will close during the winter of 2003 – 2004 as the low revenues from the summer of 2003 will not be enough to sustain some of the less financially sound schools through the slow winter season.

3.2 Current Situation in the ESL Industry

An analysis using Michael E. Porter's five factors acting on the Vancouver ESL industry indicates that the level of competition between schools is very high. (See Figure 2: Five Forces of the ESL Industry). A high threat of new entrants into a market with low growth, an essentially homogeneous product and customers having high bargaining power all lead to this high level of rivalry in the market. This has pushed many competitors into cost-based strategies forcing down the prices and eventually leading to low profit margins in the industry. There is a minimal threat of new technology creating substitute products to replace ESL classes, as the classes themselves are only part of the overall experience of living abroad. Recently, however, entrants in other countries such as New Zealand and Australia can be considered product substitutes and pose a threat to the Canadian ESL market. The industry does have an advantage in that an organization has some control over its suppliers. But when all five factors are examined together as a whole, the industry exhibits trends that make it an unattractive one to compete in.

While the prospects for the future of the industry seem to be positive due to relaxed constraints by Immigration Canada and the development of national marketing bodies, it is important for organizations to realize that exclusive use of cost-based strategies will only damage the industry as a whole. Schools must start to focus on value-added differentiation strategies employing new ways to add perceived value to the product through additional services that will make students' overall experiences in Canada more memorable.

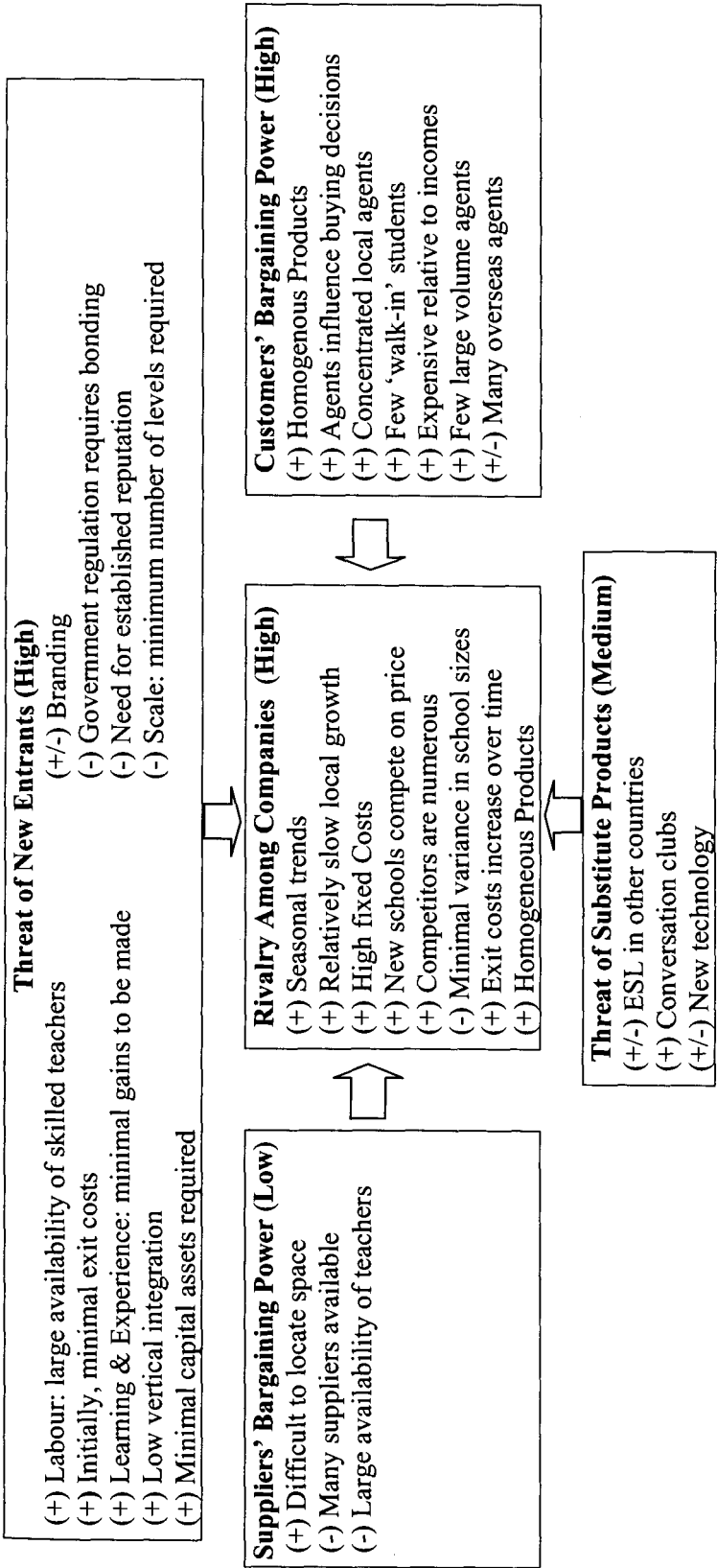


Figure 2: Five Forces of the ESL Industry

Used by permission of Ed Buzsacar. Class notes, Simon Fraser University, 2003.

3.3 Threat of New Entrants (High)

The threat of new entrants into the Vancouver ESL market is high. With the exception of the government regulation for bonding, there are a minimal number of factors that would strongly discourage entrance into the market and several considerations that make it easy to enter. Schools typically start their operations in smaller spaces with six to eight classrooms in order to keep fixed costs, such as rent and security bonding minimal. Rent on such a space could be about \$5,000 to \$10,000 per month and a bond of about \$75,000 would be required by the provincial government as security. So for an investment of around \$150,000, a new school could be opened and operating with cash available for initial marketing objectives and salaries.

(+) Labour: large availability of skilled teachers

The qualifications and requirements to teach ESL are relatively low. While a bachelor's degree is often a requested qualification, it is common for ESL teachers not to have one. A Teaching English as a Foreign Language (TEFL) certificate can be obtained in four weeks for a cost of about \$1,500. Often having the 'right' personality and a year or two of overseas ESL teaching experience is enough to get an ESL teaching job in a private language school in Canada. There is no governing body requiring a specific level of qualifications, although a school must have teachers that meet very basic standards in order to apply for membership in some voluntary industry associations, such as the Canadian Association of Private language Schools (CAPLS) and the Private English Language Schools Association (PELSA).

For these reasons, there is a large number of teachers in the city at any one time looking for teaching jobs. This means that a manager of a new school can easily, quickly and inexpensively hire teachers for any new classes.

(+) Initially, minimal exit costs

When a school first opens, the majority of the students come from the local market. These students can be obtained quickly as opposed to students from the international market who require a longer lead time of advertising and marketing. For this reason, should a school decide to stop operations in its early stages, it would merely have to complete the classes for that month, not allow any new registrations, and pay off salaries and bills. A prudent owner might rent office space suitable for teaching to avoid the need for leasehold improvements. The manager may also rent space on a monthly or short-term basis. Under these conditions, a new school might be able to operate for half a year, decide that margins are too low and quickly exit the market with minimal losses.

Should the school remain open long enough to start getting large lump sum payments from overseas students, it is likely that this money may be spent immediately on marketing and advertising, before the student actually finishes studying. This means that in order to leave the industry after being in operation for a while, a school would need to ensure that it had enough money set aside to refund any students that had paid in advance. The required government bond would secure some, but not all of these funds.

(+) Learning & Experience: minimal gains to be made

To operate an ESL school there is minimal specialized knowledge or training needed and no patents or high-tech knowledge required. There is no time saved nor costs reduced through repetition of producing the service. Some advantages do exist for the incumbents as systems get developed over time and processes tend to run more smoothly as they are repeated. The savings in these advantages are mainly in the area of time and energy, however, and there are not really any product improvements or characteristics that cannot eventually be imitated by competitors.

(+) Low vertical integration

An ESL school can be run effectively with only ESL classes as its core competency. There are very few opportunities for vertical integration and none that would be considered as a barrier to market entry. While supplementary products such as textbooks and materials, extra-curricular activities and accommodation arrangements (“Homestay”) could all be managed internally, they can also be easily outsourced.

(+) Minimal capital assets required

There is no inventory, R&D, nor extensive credit needed to enter the market. A basic room with tables, chairs and a whiteboard are sufficient to provide the service. A curriculum can be based upon published textbooks and therefore minimal research is necessary to create a curriculum. Teachers are able to work effectively from these textbooks with very little guidance. Textbooks for students can be bought easily in Vancouver on an ‘as needed’ basis, thereby limiting the need for extensive inventory.

(+/-) Branding

Schools that have been in operation for years have grown and reinvested profits into facilities such as multiple campuses with expensive décors that add to the perceived stability and prestige of the school. A new entrant to the industry will usually open and try to establish a single facility before expanding into a new market with a second location. Initially, a new entrant may be limited due to the cash required to compete with the branding and image of schools that have been operating, renovating and expanding for several years using the profits that they have made. Newcomers to the market may find this a hurdle, however, they also have the opportunity to market themselves as a 'new' and 'exciting' school, which may be attractive to customers looking for something that they perceive as new and different.

(-) Government regulation requires bonding

The government of British Columbia has established the Private Post-Secondary Education Commission (PPSEC), which regulates all private post-secondary training institutions in the province, including ESL schools. Before being able to obtain a business license or advertise, a school is required to post a bond for 75% of the *maximum* possible revenue that it could possibly hold at any one time. This is calculated based on the number of seats available in the school multiplied by the maximum possible tuition fee. Security is required for this amount in order to provide consumer protection for students should a school suddenly close down without any money. It is rare that a school will ever run at maximum capacity and certainly not soon after opening. For this reason, posting this bond can put a huge strain on the start-up funding of the school.

(-) Need for established reputation

Agents and students may be reluctant to work with new schools because they feel that the school may not be reliable, may close down suddenly, may not have sufficient levels of classes, nor sufficient numbers to open all the advertised classes. Schools that have been operating for a long time will have a more stable reputation and they may attract customers based on this perceived reliability. Being in operation for a minimum of two years is a requirement for joining ESL associations such as CAPLS or PELSA, which add to the perceived reliability of a school.

However, as the students are very price sensitive, it is possible for new entrants to try to overcome this barrier by offering price cuts. In some cases, this may be effective enough to help the new school gain a market share in the industry, however it also puts a strain on the organization's cash flow, which is likely to be more fragile than that of established incumbents. While deterring new entrants to the market, this situation, should the new entrant still attempt to enter, may make the industry more price competitive and increase rivalry in the short term.

(-) Scale: minimum number of levels required

In order to offer a full range of English classes for all language levels of the students (beginners to advanced), a school is required to have a minimum number of classrooms and teachers, even though it is unlikely to initially have students in each level. This means that a new entrant may need to initially run four or five different classes at a loss until enough students join the class to make them profitable. Incumbents have an advantage in this area as they have developed a large enough student base that

allows them to offer a larger range of class levels, which is perceived as important by the students.

3.4 Supplier's Bargaining Power (Low)

In the ESL industry, there is a very low dependence on suppliers. As the product is service-based, there is not much need for supplies nor materials and labour is easily obtainable at low costs.

(+) Difficult to locate school space

A school requires special zoning from Vancouver City Hall. It is difficult to find space that is already zoned for school usage and therefore it is necessary to spend time and money to upgrade a location from office zoning. As the upgrades and new zoning are only specific to one type of business – schools – landlords are reluctant to share any costs of the upgrades, as they do not necessarily see it as an improvement to their building. In fact, they sometimes view the increased usage of stairways, elevators and washrooms as a detriment to the building and an inconvenience to the other tenants. For these reasons, it is difficult to locate school-zoned space to rent and the company's rental expense will be costlier than a comparable office space.

(-) Many suppliers available

The materials required to operate a school are very basic and easily obtainable from a wide range of sources. They consist mainly of supplies and services that are required by any standard office and are often purchased in relatively large quantities,

providing the school with some control over its suppliers. Credit is easily obtainable from suppliers and terms are flexible due to the dependence that the suppliers have on the organizations.

Furniture and ordinary office supplies such as pens, paper or whiteboard markers, are all that is necessary and it is easy for a school to shop around and sometimes have suppliers compete against each other on price. A sizable amount of printing or promotional materials is required and schools are able to negotiate discounted rates or favourable payment terms on these large printing jobs. Schools also have the possibility to do this printing offshore at a much cheaper rate. And although there is a limited number of ESL textbook suppliers, there are also fewer buyers as these publishing companies serve a very specific niche and schools may not always use printed textbooks but may instead use materials that have been developed in-house.

(-) Large availability of teachers

As discussed under 'Threat of New Entrants', there are very few requirements necessary to become an ESL teacher. The market has a large number of teachers available that can be hired for reasonable wages. As there is no real learning curve in the classroom, there are minimal gains to keeping teachers at the school for a long time, however it is relatively inexpensive to provide them with benefits that would do so. A teacher that leaves the school can often be replaced within days with no effect on operations.

3.5 Customers' Bargaining Power (High)

One of the factors that makes the ESL industry unfavourable is the amount of strength that the buyers have. They are in a position where they can easily switch to another school or negotiate for lower fees. The agencies also realize that they are in this position of power over the schools as they are able to influence the buyers' decisions.

(+) Homogenous products

The actual product of a "period of time studying English" is a very difficult one for the customer to differentiate based on quality and therefore most schools seem to offer almost identical services in the customers' eyes. There are some differences between schools such as the size of the classes, the mix of nationalities or the textbooks used, but for the most part, students view the product offering as homogenous. For this reason, they become price sensitive, thereby increasing price-based rivalry.

It is easy for customers to switch to another school with a minimum of inconvenience. Most schools are centrally located, offer flexible intake dates and will often wave the registration fee (+/- \$100) to encourage students to switch schools. In some cases, a student might see switching schools as an advantage, because it is a chance to experience different teaching methods and meet new friends and teachers. It is common for students to switch schools approximately every four months. It is difficult to implement tangible switching costs and therefore the organization is dependent upon a friendly environment, special atmosphere or other perceived value to keep students at the school.

(+) Agents strongly influence buying decisions

With such a homogenous product, agents are able to easily influence customers' choices. Often the agents are likely to recommend a school based on the commission rates that they will receive, rather than on any features or benefits of the school. This reduces the industry to a price war as schools battle to give the highest commission to the agents.

(+) Concentrated local agents

There are relatively few local agents in Vancouver (approximately 20) that service about 150 schools and possibly thousands of students at any one time. This forces schools to compete more aggressively in order to gain referrals from these agents. As the agents are not concerned with quality and the products are basically homogenous, their main motivation is their commission. And as students are quite price-sensitive, it is more likely that an agent will be able to 'push' a low-priced product and focus on volume. This, again, forces the school into an intense cost-based rivalry.

(+) Few 'walk-in' students

Very few students search for new schools or switch to new schools on their own – the vast majority will use agents in order to save money. This increases the competition to enrol any full-paying walk-in students that may take it upon themselves to shop around individually rather than use an agent. Often a school might offer a smaller discount directly to a walk-in student to convince the student to enrol immediately and not use an agent. Should any agents discover that the school is directly discounting and removing

the agent from the channel, the agent may stop referring students to that school.

However, the competition is so intense for students that a lot of schools are willing to take these risks in hopes of saving some of the commission that they would normally have to give to an agent.

(+) Expensive relative to incomes

The students come from a variety of nations and each has their own level of price sensitivity. In general, most students come from a country where incomes in the local currency are weak compared to the Canadian dollar, such as Brazil, Mexico or Chile. They need to be supported by their parents back home and payment for tuition fees is usually done on a monthly basis, as parents receive their paycheques and wire money to their children. Obviously, these students are very price sensitive forcing price-based rivalry amongst schools.

In countries with stronger currencies such as Japan, South Korea or Taiwan, students have worked for a long time to save money to come to Canada and are intent on making that money last as long as possible. If they have a Canadian working visa they may find minimum-wage work in order to extend their stay. Again, there is intense rivalry brought about by these price-sensitive customers.

(+) Very few large volume local agents

Of the approximately 20 local agents in the downtown area, there are only three or four main players that are able to send a sizable number of students to a school on a regular basis, therefore all the schools will compete for their business. With this knowledge, combined with the ability to strongly influence the customers, these large agents apply pressure to schools for cheaper prices or higher commissions in return for more student enrolments. This strength enables them to force schools to offer higher commissions and increase price-centred rivalry amongst schools.

(+/-) Many overseas agents

Every country that has students wanting to study abroad has a large number of agencies ranging in size and strength. With a selection of countries and agencies available, schools are able to be selective with whom they choose to work, often forming alliances with agencies to ensure a steady flow of students. The number of agencies outweighing the number of schools somewhat decreases the rivalry between schools when securing agents overseas. However, the cost of establishing these relationships is quite high, involving extensive overseas travel and thus putting pressure on schools to be more cost effective.

3.6 Threat of Substitute Products (Medium)

Although there may be many different ways of learning a language, the threat of a substitute for this industry is quite low, as the product also has a built-in benefit of the experience of travelling overseas. This is very hard to replace with “study at home”

options. The only real threat, which is not necessarily a product substitute, but more of an outside competitor, is the offering of ESL courses in other countries.

(+/-) Expansion of ESL offerings in other countries

While other countries marketing ESL programs may not be a “new” or “substitute” product, when only examining the market in Vancouver, cities in other countries are becoming more popular and taking some of Vancouver’s market share. Students’ decisions may be influenced by government regulations such as the speed and ease at which student visas are processed or the cost of living, which may be more appealing in English-speaking countries with weaker currencies than in Canada. Other factors such as distance from their home country, flight availability and airfare may cause students to look at alternatives to the Vancouver ESL market.

In recent years, Asian students are seeing Australia and New Zealand as alternatives to Canada, as the cost of living is comparable but flights are shorter and visas can be arranged more quickly and easily. While still not as big as Vancouver, the ESL market in Sydney is continually growing. England, and more recently Ireland, are also popular destinations as visa restrictions are less stringent and students are often able to work part-time while studying. As a reaction to the events of September 11th, visas into the U.S.A. are very difficult to obtain and this, along with the comparative value of the Canadian dollar, has been a positive influence on the ESL market in Canada

(+) Conversation Clubs

Recently there has been a number of 'conversation clubs' opening and competing for a share of the market. These clubs hire untrained Canadian university students to sit at a table and chat for an hour, usually with a maximum of four international students, on a rotational basis. The students choose these classes because they offer an opportunity to meet more Canadians and more international friends and the classes are cheaper than a typical ESL school's offerings. These conversation clubs do not fall under the jurisdiction of PPSEC and require no bonding because they do not have a curriculum, do not require trained staff and do not lead to any certification. The classes are, basically, just conversations.

(+/-) New technology

Although still restricted by the availability of the Internet and high-speed data transfer in some parts of the world, the near future may offer video conferencing and online classes of acceptable quality. While these technologies are already available, learning English places far more of a strain on this technology, as it requires immediate interaction and extreme clarity.

Talking dictionaries, interactive CD-ROMs, and telephone English lessons are all available substitutes which allow students to study English without coming to Vancouver, but these options do not provide the overall experience that a student gets when living in another country, totally immersed in the language.

3.7 Rivalry Among Companies (High)

The threat of new entrants and the strength of customers' bargaining power combine together with several industry points that make rivalry among competitors extremely high. This is leading to a battle centred on cost-based strategies that are damaging the industry as a whole and making it very unfavourable to do business in.

(+) Seasonal trends

The high season, summertime, requires renting a large space in order to be able to maximize profits. However, during the low season this forces schools to be paying rent on a large amount of empty space because due to zoning restrictions it is quite difficult to suddenly increase and decrease classroom space. Rivalry, therefore, becomes quite fierce, especially in the low season when fixed costs are high and student numbers are low.

(+) Relatively slow local growth

While the numbers of students interested in learning English worldwide is growing, new options are becoming available in English-speaking countries with lower costs of living. As more and more of these options become available, it reduces the growth of the market in Vancouver, forcing more competition.

(+) High fixed costs

In order for a school to be competitive it is necessary to continually invest in a large amount of advertising and overseas promotions as well as maintaining adequate,

high-quality facilities. Schools must compete in order to ensure that they maintain cash flow to cover these costs.

(+) New schools compete on price

Faced with the high costs of space, cash expenditures for government bonding, lack of brand or reputation and the expensive task of overseas marketing, new schools will attempt to gain initial market share and win agents' trust by competing aggressively on cost. Grand opening specials, increased commissions, introductory offers, etc., all increase the amount of rivalry in the city as incumbents may be forced to react to maintain their market share.

(+) Competitors are numerous

With about 150 schools in the downtown core of Vancouver the competition for market share is intense. A few years ago, when there were fewer schools and more students, there was some under-capacity during the summer months. But in recent years, the number of schools has grown and it is unusual for any school in the city to be full and for most of the year there are undoubtedly some empty seats in every one of the schools, forcing intense rivalry.

(-) Minimal variance in size of schools

Even though there are a large number of schools in Vancouver, there is a relatively small range in the capacity of the schools. Due to the financial need for a minimal class size, and the customer's need for a range of class levels it would be

difficult to provide sufficient service and still financially operate a school with less than a capacity of 50. A lot of schools rarely exceed a capacity of 200 meaning that the majority of these schools are quite similar in size. As enrolment drops drastically in the winter months, it is not feasible to be carrying fixed costs on a large amount of rented space, so schools aim to find a size which fills to capacity during the summer months, yet is affordable during the slow season. This similarity in the size of the schools prevents any one school from having a greater amount of power than all the others, and so all these similar-sized schools continually fight over their piece of the market with no niche offerings or extraordinarily powerful schools securing an advantage. Competitors soon realize that no school has a cost structure that is more efficient than any other and therefore competing on price will offer no real benefits, as every school will be expected to react to a price war in the same way.

(+) Exit costs increase over time

As described under “Threat of New Entrants,” exit costs tend to rise as fees collected in advance are often used to fund additional marketing and future expansion. This makes it difficult for a school to shut down, as it will find itself owing large sums of money to students who have paid in advance and not yet finished their studies. This situation forces long-term players to continue to compete even more strongly as time goes on.

(+) Homogenous products

As discussed under “Customers’ Bargaining Power,” the product, studying English for a fixed period of time, is very hard to differentiate in the eyes of the customer. For this reason, rivalry is very high as schools are forced to either search for other ways to add value to the experience at the school or else compete on price.

3.8 The ESL Industry in Vancouver: Future Trends

3.8.1 Deregulation

One of the most important elements that may change within the next few years is the deregulation of private ESL schools in British Columbia. The provincial Liberal government is restructuring PPSEC and ESL schools are lobbying hard to be excluded from the new government department, which will only regulate private schools offering career classes to Canadian citizens. Should this happen, it will basically remove the one main barrier to entry that exists in the industry. Private ESL schools will be able to open very easily, bringing more competition to the market.

Deregulation will also mean that incumbents in the industry will suddenly have a large sum of money returned to them, as they will receive their security bond back from PPSEC. This will mean that many schools will have a lot of working capital to invest in new products, facilities or expansions. It is possible that through this, the industry will start to see more of a split between “big players” that will have more exclusive, differentiated products, and new, smaller schools that will sell a basic service using a cost-based strategy. It could also allow some of the larger schools to have the resources

available to start a price war in order to shake some of the smaller competition out of the industry, leaving a bigger market share for them.

CAPLS is in the process of outlining a proposal for a self-regulated industry that would have member schools protect students should a school suddenly close down. This will mean that schools that are members of CAPLS, which requires a minimum of two years of operations, will have a distinct advantage of security and reliability over new schools.

3.8.2 Growing Market Size

CAPLS is currently the largest association of private language schools in Canada and has already started to produce promotional materials that focus on marketing Canada, as a whole, as a place to come and study English. Canada is lagging behind other countries in this respect. There is still a lot of competition at the local level and a lot of time and energy is spent competing with other Canadian schools when it should be spent competing with other English-speaking countries. CAPLS is the first step in this direction and this will work towards keeping the industry growing at a steady rate over the long term.

Immigration Canada is slowly becoming less strict on the regulations and issuing of visas for international students. It changed a major policy on June 1, 2002, allowing students from certain countries to enter and study ESL for six months with only a tourist visa. Previously the limit was three months. This lessens the time and energy that students need to use to make arrangements to come to Canada to study, which will help to increase the overall international student numbers in Canada. And with Mainland

China growing economically there is a large potential market and Canada Immigration is just starting to allow these clients to come to Canada for their studies. It is expected that over the next several years the number of students from this part of the world will increase dramatically.

3.8.3 *Strategic alliances*

Larger, established schools are forming alliances in order to increase their sustainability and regulate their revenue stream. They are able to leverage their reputation and reliability by entering into agreements with other companies in the value chain. For example, some schools sell shares in the school to international agencies in order to secure a constant supply of students from those agencies. This also sets up a barrier to entry as it limits new schools from establishing a strong relationship with those agencies. This causes new schools to establish working relationships with local agents, which must be handled carefully as international agents may refuse to work with schools that deal with local agencies offering discounts. However, a large percentage of a school's enrolment may come from these local agents, such that not having a working relationship with them could hurt profitability. Even without formal agreements, agencies will prefer to work with schools they have already worked with in the past. Agencies are reluctant to work with new schools offering common product lines, as it requires time, effort and risk to develop new working procedures with these schools, perhaps for no added benefit.

3.9 Key Success Factors

For an ESL school to be successful over the long term, it is necessary that the entire organization have several qualities that together, enable it to operate efficiently. Due to the homogeneity of the products, it is important that the organization function with a low cost structure. There may be some room to differentiate some products but often competitors can copy this and the price ends up playing a very important role in the decision-making process. For this reason, an ESL school must ensure that its costs are well-managed in order to be able to keep its prices competitive.

The organization must realize that, in addition to the time spent in the classroom learning with a teacher, it is providing an overall experience to the customers. This means that there must be procedures in place that create an exciting and positive environment in the school. This would include opportunities to interact with a variety of Canadians, activities arranged outside of the school, the chance to chat and develop friendships with teachers and staff and a positive homestay experience. Opportunities such as these will provide the students with positive memories of their time in Canada.

It is important that the school develops strong relationships with both local and international agencies. As one of the main sources of students, these agents must feel that they can trust and work with the school and have a feeling of being appreciated for their efforts, whether through personal attention or participation in joint advertising ventures. A large base of agents from a diverse source is essential such that if one country goes into economic collapse, other countries will still supply the school with students.

The organization should have a wide offering of products so that students do not need to leave the school once they enter. This should include several levels of language lessons in addition to specialized courses for higher-level students. These specialized courses should be designed with the needs of several clients in mind such as preparation for the Cambridge First Certificate of English (FCE) for European students, the Test of English for International Communication (TOEIC) for Koreans and Japanese and the Test of English as a Foreign Language (TOEFL) for students from Mexico and Brazil. The school should also appreciate that once reaching a high level of English, the students will want to use the language to learn other subjects and offer a variety of programs such as business courses, teacher training or hotel management.

3.10 Summary of the ESL Industry Analysis

If the industry continues as is today, many incumbents may be forced to use a cost-based strategy in order to compete for market share. This will lead to lower and lower profit margins, possibly with services of lower quality, which could reflect badly on the Canadian industry as a whole and damage its reputation in the world market. For this reason, it is important to note that while cost-based strategies often exist in mature markets, organizations should also consider competing using a differentiation strategy to exploit market niches.

Schools should consider differentiating and adding benefits to their services. One strategy should be to differentiate themselves on the actual ESL classroom experience, possibly by adding unique course offerings, or perhaps by using new technology as it becomes available around the world in partnership with the traditional classroom-based

model of learning English. A second strategy might be to add perceived value to the product by increasing the value of the experience outside the classroom, for example, through vertically integrating extra-curricular activities and making them part of the ESL experience.

As the industry is currently based on a homogeneous product, it is important that organizations realize the consequences of not differentiating the product and thereby opening up the possibility for a price war that may damage the industry as a whole. Organizations need to take initiatives to differentiate their offerings, search for niches and exploit them, and work towards adding perceived value to their products.

CHAPTER 4 INTERNAL ANALYSIS

4.1 Current Strategy

Due to the product basically being homogenous, the organization is currently using a cost-based strategy to compete in the market. However, as more schools enter a shrinking market it is becoming more and more difficult to be profitable in this increasingly rivalrous environment. The college must immediately implement a survival strategy to continue operations through the current slow period in the market. After the market normalizes, management needs to determine whether it is feasible to implement a differentiation strategy based on its core competencies.

4.2 Primary Activities

As the main product is an “experience service,” there are not a lot of outbound logistics or support services offered. Marketing and Sales play a large role in the value chain of the organization and are a big task as the school must market globally, paying attention to a variety of cultures and specific customer needs. A main focus of the school is ensuring that inbound logistics are well managed so that potential clients are able to get information and register as smoothly as possible. Finally, operations must provide the students not just with an English class, but also with an overall experience that involves accommodation with a Canadian family, mixing with local people and travelling and touring around the local area. (See figure 3, “Firm Value Chain”.)

Winfield College's Firm Value Chain

Firm Infrastructure		Margin
	<ul style="list-style-type: none"> • General Management • Bookkeeping • Purchasing of office supplies • Hiring/negotiating/releasing of staff • New teacher orientation • Payroll 	<ul style="list-style-type: none"> • Professional services • Payroll services • Cleaning and maintenance • Teachers' professional development • Administrative professional training
Human Resource Management	<ul style="list-style-type: none"> • Registration database • Homestay services 	
Technology Development	<ul style="list-style-type: none"> • Comp. Learning • Lang. Labs • TEFL practica • Curriculum dev. and teachers' references 	<ul style="list-style-type: none"> • Marketing database • Website dev. • Memberships • Int'l marketers • Printed ads
Procurement	<ul style="list-style-type: none"> • Homestay services 	
Primary Activities	<ul style="list-style-type: none"> • Inquiry responses • Registrations • Homestay placement • Level testing • Orientation 	<ul style="list-style-type: none"> • Trade shows • Internet • Local Agents • Int'l Agents • Walk-ins • Alumni services
	<ul style="list-style-type: none"> • ESL classes • TEFL classes • Activities 	
	<ul style="list-style-type: none"> • Grad Ceremony 	
	<ul style="list-style-type: none"> • Operations 	<ul style="list-style-type: none"> • Outbound Logistics • Marketing & Sales • Service
	<ul style="list-style-type: none"> • Inbound Logistics 	

Figure 3: Firm Value Chain

Based on the concepts of Michael E. Porter from "Competitive Advantage: Creating and Sustaining Performance" (1985), Macmillan, Inc.

4.2.1 *Inbound Logistics*

The college always responds to inquiries in a quick and professional manner. Close to 100% of initial inquiries made directly to the school are through e-mail. Questions are answered individually and all school information is sent to the potential student as e-mail attachments. A follow-up e-mail ensures the information has been received and additional questions are then answered. This is a strength of the college and student feedback is always very positive with regards to the timeliness and detailed answers given by the staff. The college website is in several languages and is designed to allow for direct contact via e-mail or online registrations. In 2003 the website is being redesigned to be more easily navigated and to make the design more modern and appealing to students.

Registration forms are received either by e-mail, through the website, by regular mail or by fax. They may come directly from the student or from an agency that has assisted the student with the registration process, either locally or from overseas. A return response is sent out, usually within a day, indicating the student's acceptance into the program and further steps required at that point. Local students may register and begin studying as quickly as the same day, while students registering from overseas usually do so a minimum of at least four weeks in advance. The student is added to the database and if requested, homestay accommodation is arranged for the student.

Based on criteria provided by the student, an appropriate homestay family is selected for the student and arrangements are made for the family to meet the student upon arrival at the airport. The student usually spends a day or two with the family becoming accustomed to the new surroundings before starting classes.

Level testing and an orientation are given to each student on their first day of classes. The process takes the better part of a day and in addition to the test which determines their level of English, includes introductions and ice-breaker activities, meeting with various staff members, a school tour, an overview of the school rules and basic information on Vancouver. There is then a guided walking-tour of the downtown area in the vicinity of the school. The registration process is similar for TEFL students, however, as there is only one TEFL class run at any one time, students tend to register well in advance to ensure that they get a place in the class. A level test is not required for TEFL students, who are native speakers of English, and after introductions they are given a school tour and then begin their classes.

4.2.2 Operations

To provide the ESL classes, teachers are assigned two levels of classes to teach, one level in the morning and another in the afternoon. There are a maximum of twelve students per class and each student is required to either rent or buy a textbook for the class. The curriculum is based on the textbook and in-house standardized tests are given after four weeks (mid-term) and eight weeks (level final). Although there is a textbook to follow, the teachers are encouraged to supplement it as much as possible to make the classes fun and interesting. Supplementary activities could include materials from local newspapers and TV shows, visits to local businesses and events or activities that have the students interact with Canadians outside the school.

TEFL classes for English-speakers are four weeks in length and are also based on a core textbook. The course is given by two instructors who focus on the practical

aspects of teaching effective ESL classes. A major component of the course is the practice teaching, and the college arranges in-house classes for recent immigrants so that the TEFL trainees can do their practicum at the college. The grading is based on the practice teaching that the students are required to do and there are no formal written tests for the course. Teachers at the college grade assignments for the TEFL Distance Education Program and a practicum can be arranged by the student in the city where they are living. Upon graduation, the new teachers find work overseas in countries such as Japan, Mexico and Germany, or else in private ESL schools in North America, including Winfield College. Teaching ESL and TEFL classes are the college's core competencies.

The ESL teachers at the college volunteer to arrange and organize extra-curricular activities, usually once a month per teacher, for additional compensation. These might include making crafts at a community centre, attending a professional sports match or going for dinner and a movie. With a teacher as a facilitator, the objective of these activities is to encourage students from different levels and classes to mix and make friends using English while seeing or participating in various social activities around Vancouver. Usually between 10 and 50 students will attend any one activity.

4.2.3 *Outbound Logistics*

On the final Friday of the month a graduation ceremony with certificate presentations and prizes is held. This is the last opportunity for the students to say goodbye to their friends and teachers at the school and is considered an important day in the school. This, however, is a weak activity for the college and needs to be investigated for the potential value-added opportunities. It is the last formal experience that the students

have at the college and must be more carefully planned to make a lasting impression on the students.

4.2.4 *Marketing and Sales*

Trade shows are very important to the college's marketing plan. Held overseas in countries with potential student markets, a booth is rented to allow for direct contact with students who have an interest in studying abroad. It is also common for international agents in the country to use these opportunities to meet with school representatives. For this reason, although the trade shows are expensive, they are attended regularly by representatives of the college. Some trade shows, referred to as "agent workshops" are not for meeting students but for school representatives and agents to meet. Weeks before the workshop, twenty-minute meetings are arranged over a period of two days and the school representatives make a short presentation to a 'parade' of agents all day, in hopes of forming a working relationship with some of them.

As Internet usage becomes more common around the world, students are able to get school information more easily, compare prices and make independent buying decisions. ESL chat groups are starting to form in Asia and students are getting information directly from other graduates. Agencies are advertising on the Internet and there is a new trend for students to use online agencies to register at a school. The college's ESL tuition income from students registering directly to the school has increased to about 35% over the past few years and this method of recruitment will undoubtedly become more important in the future.

International agents offer school information directly to students interested in studying abroad. They assist students with selecting schools, obtaining visas, translating documents, communicating with the registrar, transferring funds to the schools and purchasing plane tickets. For these services, the agency may collect a service fee from the student and will ask for a commission from the school of approximately 25% to 35% of the student's tuition fees. It is important to note that the agents have a large amount of control over the buying decision of the students. The agents are viewed as experts and students will trust their recommendations of schools, often without question. So while a student may make a decision at home based on Internet research, if the student decides to use the services of an agency it is not unlikely that the agency could persuade the student to change their decision in order to gain a higher commission. Students who register through an overseas agent generate approximately 49% of the college's tuition income.

Local agents operate in the city and offer services similar to those of international agents to students who are already in Canada and usually wanting to change to a different school. As the size of the ESL market has recently become smaller, local agents have been passing along anywhere between 5% and 20% of their commission to students, referred to as "discounting". By advertising discounting on the Internet many students are registering with local agents directly from overseas and by-passing the international agents in their own country. This has made the international agents reluctant to refer students to schools in Vancouver and has started a "discount war" amongst the local agents. Recently, as the market has become more competitive between the local agents, there have been some agency closures. Students who register through a local agent generate approximately 16% of the college's tuition income.

Walk-in students have already arrived in Vancouver and have usually already studied at an ESL school for a while. They are looking to change schools for one of many reasons including meeting new friends, studying a subject their original school did not offer, or being unhappy with their current school. As the local agent market has become more competitive, independent walk-in students are becoming less common. Usually they will first go to a local agent, who may help the student make an appointment to visit the school or observe a class. After the visit, the student will return to the agent to register and obtain a discount. A school will not offer a discount directly to the student, as it would destroy the relationship between the school and the agent, thereby stopping any future referrals from that agent. Instead, as the market has become more competitive, schools have continually increased their commission rates, some as high as 50%, in order to ensure that they capture these local students.

4.2.5 Service

At this point, the college does very little to follow up with alumni but is currently expanding its database system to include a follow up feedback system for students. The dependence on the Internet will allow graduates to become promoters of the school very easily and the college is currently considering activities to capitalize on this.

4.3 Supporting Activities

The majority of supporting activities in the industry are handled in-house and are quite specific to each organization. For this reason, it is often difficult to find new markets for core competencies, as they are usually limited to one specific environment.

4.3.1 Firm Infrastructure

The main day-to-day management is handled in-house as much as possible at the college and supports all of the primary activities in the school. Upper management has extensive experience in the ESL industry and has a good understanding of the client base and all aspects of the industry. Bookkeeping and basic financial statements are done internally. Payroll was done internally at the college up until the beginning of 2003, when it was outsourced in order to allow bookkeeping staff time to concentrate on financial reports. All other professional services such as legal or accounting are outsourced.

While a low turnover in staff has made these operations efficient and streamlined, there is no opportunity to sell any of these services outside the school and they are therefore just considered operating expenses.

4.3.2 Human Resource Management

The majority of human resource management is done internally and supports all of the college's primary activities. Middle management is hired from within the company to ensure consistency and continuity in dealing with school policies and issues. All new teacher training is done by middle management who themselves were previously teachers in the school. Regular professional development for teachers is done internally by TEFL trainers, however professional upgrading for all administrative staff such as computer training or accounting classes are outsourced.

These support activities are mainly considered expenses. As the training of teachers is a core competence, there is the possibility for the college to act as a source of

Canadian teachers for overseas schools. The resources required to perform this service, however, are considerably high compared to the income potential.

4.3.3 *Technology Development*

The school registration database supports all inbound logistics. As students register for classes at the college, all of their information is processed and kept on file. The company originally organized all student information manually and then with packaged software, however, within the last two years, the company has outsourced services to create a custom-designed database to handle all student registrations, invoicing and record keeping. The system is functional but very minimal and not ready to be mass-produced or sold to other schools. Software production and sales are considered beyond the core competencies of the college and are not considered as having any potential for expanding operations.

Computer assisted language learning supports operations in an ESL school, however the college has not purchased any software packages that assist students in learning English. Student surveys have never indicated a great demand for it and the cost of upgrading and maintaining the new hardware is a hurdle to implementing such packages. The teachers are not familiar with and have never requested any of these packages. Teachers have their students use the Internet as a resource for preparing English presentations and essays. Using computers to supplement classroom learning is not a focus at the college and expenditures needed to implement such a project would not likely provide any noticeable return or added value as the students prefer live interaction

and conversation while in Canada because they are not be able to have the opportunity to do this in their home countries.

Also supporting the operations of an ESL school are language labs, which are cassette or video recordings that students, can listen and learn from on their own time. These labs are becoming less and less common in schools as they are seen as an older style of technology and one that can be obtained in students' home countries. The students' focus is on maximizing their actual speaking opportunities while being immersed in an English environment. Students requesting a language lab are referred to the Vancouver Public Library a few blocks away from the college, where they can have free use of the language lab at the library.

A major support for the operations in the college are the practica arranged by the TEFL department. For teacher-training courses, an important component is for teacher trainees to be able to practice teaching with authentic ESL learners, rather than only practicing on their English-speaking classmates, referred to as "peer teaching". A lot of schools offering TEFL training will outsource this by sending their trainees to other schools to do their practice teaching. This takes away from the consistency and convenience of those TEFL programs. Winfield works closely with local immigration and refugee centers to provide free classes to ESL students willing to study with the teacher trainees. This authentic classroom practicum is a very important selling point for the Winfield TEFL program. While this is an important value-added benefit for the TEFL programs, it is not a competency that the school could sell.

The school has recently developed a marketing database that supports the marketing and sales efforts of the organization. Until early 2003 the college did not have

a systematic way of organizing agents' or students' information in a digital form. The college has implemented a simple but effective database of all agents and is now able to contact them using mass e-mails, faxes and direct mailings. Plans are in progress to prepare regular e-newsletters and mail-outs to agents. This has been a major weakness at the college and it has now allocated resources to address this issue.

The corporate website also supports the marketing and sales efforts of the college. The website was originally designed in-house and although it contains adequate content, it is quickly becoming out-dated and stale. Resources have been allocated and the college is now using outside website designers to redesign the current website by August of 2003, with a focus on having it strongly reflect the unique environment at the college in order to obtain more registrations directly online.

4.3.4 Procurement

Homestay placement services support the inbound logistics at the college. Arranging homestay accommodation for students is an important and very delicate job, often requiring careful mediation between Canadian families and international students when cultural differences arise. There are a large number of organizations offering to arrange homestay placements, including local agents, and in the first year of operations, the college outsourced this service entirely. In the second year of operations the college decided to bring the homestay operations in-house and has done so very successfully ever since.

The homestay coordinator receives an application for a homestay placement listing the student's preferences for a family such as being vegetarian, being located in a

certain area of the city or preferring a home with or without children. The coordinator then locates a matching homestay family from an internal database of families that work with the college and arranges for them to meet the student at the airport and assist the student to become familiar with their new surroundings. This is viewed as one of the core competencies of the college and generates a good source of revenue with a minimal use of resources.

Curriculum development supports the operations of the organization and the college relies heavily on published textbooks to provide the core of the curriculum. Teachers are encouraged to supplement the topics from the curriculum and a lot of resources have been used to create in-house materials and develop set-exams for the teachers. These supporting materials and tests, however, are based upon the schedule and system at the school and could not easily be transferred or sold to another school. Although the college develops these resources in an efficient manner, it is not considered a core competency. It is possible to outsource and hire a professional to design a course curriculum unique to the college, however, the cost of such a project versus the benefits that could be received do not make this a feasible venture.

The college also maintains a teachers' reference library to support the curriculum, so the teachers have ample materials available to them to supplement the topics covered in the published textbooks. The school provides all other classroom materials and equipment and also keeps a supply of student textbooks on site that are rented out to the students for a nominal fee.

Memberships in associations help support the college's marketing and sales initiatives. The Canadian Education Centers (CEC) network is an association that has

offices inside or adjacent to Canadian embassies in countries where there is a market for Canadian education. On a fee-for-use basis, Canadian schools may have brochures racked in the centers, participate in CEC organized trade shows, obtain discounted shipping prices and make use of CEC promotional activities. While somewhat expensive, the CEC activities some of the main marketing initiatives of Canadian education abroad and membership is essential to the college's marketing plan.

Being a member of the Canadian Association of Private Language Schools (CAPLS) ensures that the college meets certain standards in the industry and allows member schools to market under the CAPLS logo, providing added value of security and quality to the customer. CAPLS also provides marketing incentives and lobbies government agencies in Canada in support of the ESL industry. CAPLS is an indicator that the ESL industry is maturing in Canada and now realizes that Canadian schools, rather than competing at a local level, must work together to market Canada as an international study destination because the worldwide industry is seeing more and more global entrants.

International marketers may provide an opportunity that would allow the college to vertically integrate into the International Education Agency section of the industry value chain. Currently, the college is planning to hire and train people who will live and market the college overseas. They would be able to maintain contact with the agents and have a direct understanding of the market in that country. A second option is to hire a representative to exclusively represent the school at a single trade show. Concerns with this are that the representatives may not accurately know or communicate the benefits of

the school to potential clients. However, it does allow for a reasonably priced entrance into a new potential market where the college is trying to establish its name.

The college places printed ads in foreign magazines and study abroad guidebooks in order to advertise its programs and support its marketing and sales activities. International agents or companies usually publish these journals and the ads are designed and translated by the publishers. By placing ads in agents' magazines it is a good opportunity to build stronger relationships with the agents and secure a steady flow of students.

4.4 Organizational Structure of the Firm

Two Canadians, both of whom have spent several years overseas travelling and teaching ESL, own the company and actively take part in the day-to-day running of the school. They are readily available to meet with staff members whenever necessary and often mix with and get to know the students at the school. With the exception of two middle managers, the rest of the organization is very flat.

There is a strong emphasis on professionalism amongst the staff in the school, including the need for punctuality, a dress code, and administrative functions including report cards, lesson plans and student attendance records. While other schools in Vancouver offer an environment with less structure, the owners feel that this structure presents the school and the staff as a team of people who are competent, serious about their duties and professional in their tasks.

The mood amongst the staff at the school is far from being cold or formal. In addition to an extended medical benefits plan, when the college first opened it was one of

the first to provide an annual salary instead of hourly wages, which was most common in Vancouver at the time. The company has always provided job security for the core teachers and this has created a sense of teamwork and sharing among them. The staff enjoys working together and arrange activities for themselves such as “lunch clubs” and “staff breakfasts”. When recent downturns in the market at the end of 2002 forced the first ever layoffs in the company, the staff joined together and created their own “work-share” plan such that everyone worked a bit less to ensure that no one lost their job.

Having a set curriculum based on current textbooks also puts less pressure on the teachers to create new ideas for every lesson, which is common in other schools that do not use a curriculum. This allows the teachers at Winfield to focus on the students in their class. The school encourages and compensates teachers for arranging and taking students on field trips as part of their class, which helps develop a good rapport between teachers and students. It is common for students to keep in touch with their teachers or come back to visit the school long after they have graduated.

4.5 Financial Analysis

Currently, the most pressing issue facing the school is the poor financial situation it is in. Part of this has been brought about by changes to the organization. A sharp increase of approximately \$120,000 in the rent expense annually occurred in 2001 after the college relocated to larger premises at the end of 2000. A sudden increase in administrative salaries in 2002 is mainly due to the purchase of a school in Toronto. The number of staff members in Toronto was reduced as the majority of administrative duties were transferred to the Vancouver office. However the main factor has been the current

downturn in the industry, which has caused a reduction in student enrolment in 2003 by almost 40% of that in 2002. Revenues have been further reduced by an increase in sales commissions by 5% to agents, which has been necessary to remain competitive. In addition to this, the overall decrease in students coming to Canada has lowered the entire industry's revenues and brought about an increase in rivalry that is forcing schools to offer discounts of 5% to 25% or more directly to students, further reducing total revenues. "The number of Asian visitors entering Canada through B.C. border crossings dropped by 26.7% in April (2003)."¹ This included a decrease of Japanese by 21.2% and of Koreans by 20.3%, the two largest ESL markets.

The college has minimized expenses as much as possible and is basically operating on fixed costs alone. Teachers are considered a variable cost, however, there is a minimum number required to be able to offer the full range of levels of classes to students. At that point, the minimum number of teachers can then be considered a fixed cost. Accounts payable have been extended as much as possible, often to more than 90 days. The entire staff's salaries have been reduced by 10% with the exception of the owners who have reduced their salaries by about 30%.

Examining the financial ratios of the college indicates some points that should be considered when making future decisions. (See figure 4, "Financial Analysis".) It should be noted that the owners have \$19,650 recorded as (non-interest bearing) "shareholder's loans". In some cases, it may be more accurate to consider these loans as

¹ The Vancouver Sun (2003, June 18). B.C. Snapshot: The SARS effect. p. C1

an equity, rather than debt, however in all the financial ratios the loans have been considered debt.

The income statement analysis indicates that the company is losing, on average in 2003, \$17,000 per month. The company has reduced expenses as much as possible without taking any drastic measures such as reducing its work force. Expenses are about \$80,000 per month and current monthly revenues have not been sufficient to cover these expenses.

The balance sheet analysis places the current ratio for the company quite low at 0.5, indicating that were the company to be liquidated, it would be unable to meet all of its current debts. A large portion of these debts is a recent bank loan, which is being used to invest in marketing projects with the goal of obtaining better returns in the future. The debt to equity ratio of 22.2 (or 3.8 when shareholders' loans are considered as equity) indicates a very high amount of leveraging by the company. This has been accomplished through "high risk" bank loans at higher-than-normal interest rates (prime rate plus 9%). The ROE for the first third of 2003 is -36% and the CGS/sales ratio has been constant as the Admin/sales has been increasing, which is indicative of additional advertising this year, with results anticipated in the near future. A comparison of the 2001 and 2002 CGS/sales ratio to the admin/sales ratio shows an increase in both, possibly indicating new competitors in the market, a slowdown in the industry or increased price pressure, all of which are occurring in the current market.

Taking into consideration the recent changes to the industry and the overall state of financial stress that the company is currently going through, a common approach

would be to decide whether to “reinvest, divest or harvest”. Management must examine these options when considering the future of the company.

Winfield College Financial Analysis

	1998	1999	2000	2001	2002	Apr-03
INCOME STATEMENT ANALYSIS						
Total Revenue (sales)	\$410,996	\$596,105	\$805,647	\$996,294	\$950,119	\$255,001
Increase from previous		45%	35%	24%	-5%	n/a
Operating Costs	385,484	520,646	785,392	874,535	954,216	317,450
Amortization	7,670	8,999	11,160	6,836	7,260	2,420
Interest	4,284	3,673	7,252	11,006	10,284	2,898
Total Expenses	397,438	533,318	803,804	892,377	971,760	322,768
Increase from previous		34%	51%	11%	9%	n/a
EBITDA	25,512	75,459	20,255	121,759	(4,097)	(62,449)
EBITDA margin	6%	13%	3%	12%	0%	-24%
EBIT	17,842	66,460	9,095	114,923	(11,357)	(64,869)
Interest	4,284	3,673	7,252	11,006	10,284	2,898
Taxes				15,387	(6,360)	
Extraordinary Expense			5,000		16,271	
Net Income	13,558	62,787	(3,157)	88,530	(31,552)	(67,767)

BALANCE SHEET ANALYSIS						
S/H loan/Dividends paid out (in)	0	6,070	5,000	22,500	(4,650)	0
Current Assets (with prepaid exp)	66,298	125,715	51,815	137,607	77,075	110,210
CA (Cash, Inv & A/R)	59,091	115,096	48,657	136,421	75,350	99,009
Total Assets (Total Capital)	94,517	148,664	176,859	276,573	245,593	303,352
Current Liabilities	54,813	56,080	92,565	107,560	120,038	202,892
Total Liabilities	153,010	144,370	200,722	211,906	212,478	338,004
Equity	-58,493	4,294	-23,863	64,667	33,115	-34,652
Total Equity + Liabilities	94,517	148,664	176,859	276,573	245,593	303,352
Current Ratio	1.2	2.2	0.6	1.3	0.6	0.5

DEBT/EQUITY ANALYSIS						
Debt (Bank loans only)	7,041	0	0	0	26,968	92,935
Debt (S/Holder loans only)	43,570	37,500	37,500	15,000	19,650	19,650
Equity (Common)	30,066	30,066	5,066	5,066	5,066	5,066
Debt(bank)/Equity + S/H loans	0.1	0.0	0.0	0.0	1.1	3.8
Debt(bank + S/H Loans)/Equity	1.7	1.2	7.4	3.0	9.2	22.2

OPERATING ANALYSIS						
Advertising Expenditures	66,612	85,390	124,394	85,399	89,892	31,152
Management (Admin) salaries	71,760	76,388	89,200	93,400	165,200	65,000
CGS taken as teachers' wages	152,324	247,167	354,486	420,780	435,492	116,282
CGS(teachers)/Sales	0.37	0.41	0.44	0.42	0.46	0.46
Admin/Sales	0.34	0.27	0.27	0.18	0.27	0.38
Net Profit/Sales (Margin)	3%	11%	0%	9%	-3%	-27%
Return on Equity (ROE)	27%	56%	-2%	34%	-14%	-24%

Figure 4: Financial Analysis

4.6 Summary of the Internal Analysis of the Firm

Winfield College has core competencies in ESL teaching and TEFL training that it must maximize and build on. This could be done by either diversifying its revenue streams through additional in-house courses, or possibly maximizing its use of distance education, which is currently a strength. Arranging homestays is also a strength for the company however there is no real possibility to expand in this area. The organization is making efforts to increase its competence in its management of data and its contact with agents, which will be important in building new relationships with agents and fortifying its current ones. The school needs to place more emphasis on student activities and the quality of the experience that the students have while they are in the school as this is often an important influence on the buying process. Increasing these perceived benefits would help the college to differentiate itself from the competition.

CHAPTER 5

KEY ISSUES FACING THE FIRM

5.1 Market Overview

The firm is currently at a critical point and needs to examine the key issues that it is facing and develop an appropriate short-term survival strategy. The two factors that strongly effect the direction of the firm are external influences and internal operations. External influences are beyond the control of the company and include factors such as economic downturns, changes in the market structure or shifts in world political situations. Internal operations are the decisions management makes in order to sustain and grow the company under the effects of the external influences. Within the last few years, drastic changes in external situations have forced the industry to change dramatically and as a result have created a very rivilrous ESL market. The organization must re-evaluate its internal operations and adapt them to the pressures of this new market environment.

5.2 External Influences

Although beyond the organization's control, the greatest issues facing the firm have been brought about by unexpected world situations. The events of September 11th have made people reluctant to travel, and in particular, less inclined to travel in or near the United States. Some students avoid transferring planes in the U.S. and in some cases choose a study destination other than Canada in order to avoid flying through American airspace for fear of terrorist acts. These may be considered by some as over-reactions, but they have nonetheless affected the ESL industry. Even two years later some students

and their parents have an underlying feeling of unwillingness to travel to certain parts of the world.

Other events since September 11 have made it difficult for the industry to recover from the downturn. The closure of Canada 3000 airlines a few months later reduced the number of affordable direct flights between Europe and Canada. World Youth Day and the papal visit during the middle of the 2002 summer high season prevented potential students from being able to purchase air tickets or find accommodation in Toronto. A struggling Japanese economy lowered student numbers coming to Canada. The tension before and during the Iraqi war left many students with the attitude of “wait until it’s over before making any decisions.” And most recently, the outbreak of SARS has made Canada in general, and Toronto in particular, a place for parents to avoid sending their children. The recent rising Canadian dollar makes ESL classes in Canada less competitive on the world market. In general, attitudes amongst potential Japanese and Korean students at exhibitions in May of 2003 were that of “wait until 2004 before travelling.”

The combined effects of all these world events have put a lot of pressure on the ESL industry in Canada. While there is obviously no action that Winfield College could have taken to prevent these events, the firm is now in the position where it must deal with the after-effects and try to mitigate the damaging effects.

5.3 Internal Operations

The key issues facing the firm’s internal operations are the result of the changing ESL market, mainly due to the external influences on the industry. Internal operations

must be modified to adapt to the current market situation and goals set in place to ensure not only short-term survival but also long-term success and sustainability.

5.3.1 Cash Flow

Currently, the most pressing matter that the school needs to examine is its cash flow situation. While losses in January and February are typical for the school, this year the school has had continued losses in March, April and May. This is due to a decrease in student numbers of almost 30% compared with 2002 enrolment levels. As well, as of January 1, 2003, the college increased its commission rate for agents from 20% to 25% in order to remain competitive. The college has also offered discounts such as a “spring special” which offered a temporary reduction of 10% off of all tuition fees. While these discounts decrease revenues, they also increase enrolment and as classes are not full, there is minimal overhead incurred when placing a student into a class with an empty seat.

April and May were the first months of 2003 that the school had a positive cash flow, which is the result of students registering and paying for classes during the upcoming busy summer months. But it will be important for the firm to reduce operating expenses if the school is to survive the low season beginning in October. Recently there have been some school closures in Toronto and the remaining schools are relying heavily on a busy summer to generate enough revenue to remain in operation through the low season. As the college cannot suddenly increase enrolment at the school, it is necessary for the firm to closely examine its expenses and to ensure that it is maximizing its advertising dollars.

5.3.2 Dependence on too Few Suppliers

The college has been too dependent on a small number of agents, which have supplied a large percentage of its customers. This had been successful until the recent changes in the market, which prevents agents from referring previous levels of students to the school. The college is now finding itself struggling to locate new sources of students in a hostile market that is forcing price cuts and lowered revenues. And with the local agents entering price wars amongst themselves, there is additional pressure on the schools to offer higher commission rates to the agents. The school has not established strong enough working relationships with enough international agents to be able to avoid being caught in the middle of the local agents' price war. As a result, the school's gross revenues this year have decreased by almost 20% compared to the same period (January to April) in 2002.

The college must also strengthen its relationships with suppliers in a larger number of countries in the world in order to be able to mitigate the effects of any economic problems in one region. The effects of another Asian economic crash, for example, could be lessened if the school has established strong relationships with suppliers in Europe and South America.

5.3.3 Fluctuating Income Streams

The difference between sales in the summer and in the winter are usually quite large, as high as 20%, but there are not a lot of opportunities to decrease variable costs. The school must examine ways to increase its revenues during the slow winter season. This has been partially achieved by starting the TEFL program, which has steady

enrolment throughout the entire year. Expanding on its core competencies of teaching by increasing its course offerings in the winter season may be very critical. Expanding non-seasonal programs such as distance education classes could also be investigated.

5.3.4 *Dependence on the International Market*

Currently, international students generate more than 60% of the school's revenues. This is a risky position to be in as the market could easily change due to a number of uncontrollable factors such as the increase in value of the Canadian dollar or new entrants into the market by schools in other countries. The school currently obtains less than 25% of its revenues from Canadian students and only from the TEFL program. It would provide greater stability for the school to balance its revenues more equally between the two sources.

5.3.5 *Maximize Use of Space*

One of the college's largest fixed costs is rent and the school is rarely filled. Currently it is offering classes from Monday to Friday during the daytime with a single TEFL program being offered in the evenings. The space is never used on the weekends. The college should consider ways to use its space more efficiently, either through more course offerings, new scheduling of classes, or possibly subleasing to non-competitive businesses.

5.4 Summary of Key Issues

The internal key issues facing the firm have been brought about by drastic changes in the market due to uncontrollable external influences. Not being able to predict and plan ahead for external factors such as SARS, has left the college in a very vulnerable financial situation which now must be dealt with internally. Recent school and agency closures are effects of these external influences, indicating that it is the entire industry that is facing a critical situation. With enrolments expected to increase during the summer, it is likely that most schools will be able to remain open until October when the winter season begins and enrolment drops. At that time, it is expected that there will be several closures, sales of schools or mergers between schools as the industry will be struggling to keep afloat until the effects of these external influences wear off and students begin to register for classes early in 2004, assuming that the market begins to recover.

CHAPTER 6

RECOMMENDATIONS

6.1 Long-term and Short-term Strategic Options

The company is in a position where management must decide whether or not the company has the income potential to warrant long-term continued operations. If the business does not show promise for sustainability then management must consider immediate exit strategies for the fall of 2003. Should the company have long-term potential for growth and success, management must immediately begin to implement a plan that will ensure its survival until the beginning of 2004, when enrolment normally begins to increase. Afterwards, when the market stabilizes and the company is in a stronger financial position, management needs to determine whether or not a differentiation strategy could be a viable and profitable strategy for the firm and whether or not it should pursue such a strategy given the industry that it is operating in.

6.2 Long-term Differentiation Strategy

While it initially seems that the basic product, a period of time studying English as a Second Language in a classroom, is homogenous between all competitors, it has also been determined that there are areas where the organization may have room to differentiate itself. The product is essentially an “experience product” encompassing not only time spent in a classroom, but also time spent with a Canadian homestay family, activities done with Canadian friends and international classmates, sightseeing tours, and developing friendships with teachers in a friendly school environment. All of these activities leave a window of opportunity for a school to add perceived value to the basic

product and thereby differentiate itself from its competitors. Should the company continue operations, it must investigate these opportunities more fully.

Winfield College has already started to implement some of these differentiating activities. By vertically integrating its homestay program, the college ensures high quality homestays and is able to assist each student personally with the entire process, beginning when they register overseas until the family says good-bye to them at the airport. Personally knowing both the student and the family allows the staff at the college to mediate and act as a communication conduit to prevent misunderstandings and ensure that the student is fully satisfied with the homestay experience. This is not easily possible if an outside company arranges the homestays.

The college has also, with the exception of long trips, vertically integrated the arrangement of local activities for the students, making them more of a personal experience with friends and teachers from the school, rather than an impersonal packaged tour with strangers from other schools. And by motivating their teachers to organize and arrange these local tours, management encourages teachers to develop a better rapport with the students thereby enhancing the friendly atmosphere at the college.

However, right now, in light of recent external influences that have caused the current market to become quite hostile and the firm's financial situation to become extremely vulnerable, the firm has no choice but to focus on its short-term strategic options, as it does not have enough resources to begin to implement a differentiation strategy.

6.3 Short-term Strategic Options

In the current rivlrous market, the firm is left with three possible options: harvest, divest or reinvest. In the situation facing Winfield College, there is no opportunity to harvest the revenues of the ESL programs. The programs at this point are not generating enough revenue to allow for harvesting and they are also the main source of income with no other major products to expand or invest in. It is therefore not feasible to attempt to redirect funds from the ESL programs to another revenue-generating area of the organization. For this reason, the option to harvest cannot feasibly be further examined.

Divesting by making an exit strategy is one option that the firm should consider as a contingency plan should the market continue to remain as it is or worsen, whether due to SARS or other external influences. It is important that a plan be in place such that should the situation arise, the college will be able to exit the market smoothly and professionally, causing a minimal amount of inconvenience for its customers and mitigating any damage to the industry in general.

Reinvesting is the other viable option as the firm is currently continuing to operate despite the vulnerable position it is in. The financial situation facing the company will make such a strategy extremely challenging but not impossible to implement by focusing on the immediate concerns of generating cash flow and minimizing expenditures. Before the end of 2003, it is expected that weaker firms that are engaging in price wars will be forced to exit from the market and thus reduce rivalry. In early January every year, enrolment normally starts to increase, so the firm's strategy, at this point, then, must ensure short-term survival in hopes that the high season of 2004 will be unhindered by unusual circumstances and allow the company to become

financially stable such that it can move forward and examine the possibility of a differentiation strategy.

6.3.1 *Divest*

Should the market continue to be as rivlrous as it currently is, without significant numbers of students arriving to Canada, sustaining the firm through the low season, in particular from October through December, will be extremely difficult. Survival will depend upon cash reserves accumulated through the current high season, which may be minimal. For this reason making an exit strategy is important. Management must look at possible ways to close the business in a graceful manner.

6.3.1.1 *School Merger*

Management should approach other schools in the industry that are facing the same market but have enough funds to survive the low season. It may be possible for Winfield College to arrange to transfer its students to the other school with minimal disruption to the students' classes. If presented as a 'merge' to the industry, agents would not be alarmed by the change and may even view it as an advantage because there could be more course offerings and more stability.

Similar situations in the past have shown that surviving schools are very willing to accept students from closing schools in order to protect the overall reputation of the city in the eyes of the world. This would relieve the firm of the greatest concerns, that of the students' satisfaction and of the unearned tuition revenues owed to them. The firm

should prepare for this early in the fall and establish an action plan to have the students move during the slowest time of the year.

6.3.1.2 Partial Closure

The firm could move to a smaller location and downsize its staff to run a more efficient operation. This would not increase revenues but the reduction in costs could allow the school to survive through the winter. It may also consider closing some specific programs, specializing only in a few, and maximizing those with the lowest overhead, such as the distance education programs. Over time, the firm could evaluate whether or not the market is going to rebound and then either make the choice to grow back to its original size or else to close down entirely.

The greatest hurdle in this plan would be renting new space and vacating the current space which is leased until 2007. The penalty to break the lease would be three months' rent, which could be a worthwhile investment should it allow the school to continue operating. Other options could be considered such as subleasing the current space.

6.3.1.3 Complete Closure

The decision to implement a school closure needs to be made when there is an indication to the firm as to whether or not it will be able to survive the winter. If the funds are insufficient then the firm should pick a date in the fall as the last day of operations. Typically, there is a sharp decrease in enrolment at the end of September, so the date chosen should be as soon as possible after this. No enrolments would be

accepted after this date, and any student wanting to study after this date could be ‘farmed out’ to another school at a small commission rate. On the last day of operations, there would be very few continuing students and minimal unearned tuition owed. Staff could be given enough time to allow them to make arrangements and the school could close with a minimum of disruption to the industry.

6.3.2 Reinvest

For the firm to begin to reinvest a natural step might be to first establish a strategy and invest resources into its implementation. Many of the firms in the industry are operating with a cost-based strategy, mainly through low-cost lessons in a typical ESL school location. Some very low-cost operations can be seen in the recent growth of “conversation clubs” which offer no activities, homestay, curriculum or structure, just a period of time spent chatting with a Canadian, usually in a high-rise office space. The industry also allows for a differentiation strategy as the product has several areas that can be tailored to suit individuals’ needs and add value to the experience.

The firm, however, must first focus on a short-term survival strategy addressing its cash-flow concerns before being able to implement a long-term strategic plan. For this reason, the following recommendations should be implemented with the short-term goals of generating income and surviving until January of 2004. A slight increase in enrolment can be expected in January due to the summer vacation in Brazil and the university holiday in Korea at this time. Remaining open from January to March may also be a challenge, however, in April the market starts to improve as Japanese university students begin their vacations. It is expected, as all schools are facing the same hostile

market, that during the winter of 2003 there will be several school closures as firms deplete their cash reserves. The market has already seen some closures in the industry this summer. By the spring of 2004 the market is expected to recover with fewer competitors. However, with limited cash in the firm right now, reinvesting must be done carefully in order to not become one of the school closures.

The college currently has an aggressive marketing plan for the fall based on the idea that companies that market during slow periods recover more quickly in better times. The plan includes new brochures and representation at trade shows in some of the industry's largest markets: Japan, Taiwan, Brazil and Korea. It will also include personal visits to agents in these countries. Expenses have already been reduced to a near minimal level. Pro-forma cash flow expenditures through to January of 2004 have been completed along with predicted revenue incomes based on the figures from the first half of 2003 and the trends of 2002. Using these calculations scenarios have been created which indicate that the college will require outside capital of between \$40,000 and \$80,000 in order to keep operating until the end of January of 2004.

The financial analysis of the company shows that on average, the college operated with a net income of \$40,430 every year from 1998 through to 2001 and an average return on equity (ROE) of 29% for the same years. (See figure 4: "Financial Analysis") Given this financial operating history during normal years in the industry, the current owners feel that there are both financial and quality of life benefits in continuing to operate the company and they are prepared to invest the required capital. If the remainder of 2003 continues without any extraordinary industry-damaging events the

college should be able to remain open until 2004, when normal operations should allow it to be self-sustaining.

To minimize the need for outside capital and to keep the school in a stronger financial position it is essential that management implement reinvestment plans that ensure that the revenue stream will be maximized during the low season.

6.3.2.1 Increase Direct Marketing to Students

Due to the large drop in enrolment brought about by students being unwilling to travel to Canada at this time, the firm must focus its efforts more strongly on the students already studying in Canada that may be willing to change schools. Recently the school has seen positive responses to free “trial classes”, with about one out of every four students enrolling in a program after attending a trial class. The firm must increase its advertising of these free trial classes in local foreign-language newspapers, both to encourage more enrolments and to increase walk-in traffic to the school which would possibly circumvent local agents and their commissions. Currently, for students who try a free class, the college is offering a \$50 gift certificate towards tuition upon their enrolment. This makes the trial students feel special and they also receive a financial benefit upon enrolling. This is a minimal cost to the college with immediate benefits as it fills an already empty “perishable” seat. The college should provide a small reward to any teacher whose trial student enrolled in the school. This would help ensure that the trial student is receiving lots of attention and a warm welcome in the classroom.

The college must update and redesign its website to add a more modern feel to it. Between forty and fifty percent of new students register independently so advertisements

for trial classes should be prominent along with more pictures of current activities and interviews with students currently studying in the school. These interviews and pictures need to be updated on a regular basis to encourage people to return to the website often. This will introduce potential students to some of the added value and experiences that they will receive by studying at Winfield College.

6.3.2.2 *Counter-Seasonal Activities*

The college needs to add more courses that will appeal to local Canadian students. These courses should incorporate an international theme such as preparing for overseas travelling, language lessons, cross cultural experiences or international nights with slide shows. The courses must run in the evenings through the winter season when Vancouverites are more likely to settle into a routine of studying in a weekly class and also when international student enrolment is lowest. There is potential to partner with local travel agencies and offer language or cultural courses to people before they take their vacations. A component of the courses could involve the college's international students who would introduce their culture to the Canadians. The Canadians would meet authentic 'cultural ambassadors' and the international students would have the opportunity to mix with more Canadians and experience more Canadian culture. Using the classrooms in the evenings increases income with no added strain on space usage.

The college currently has a core competency in offering the TEFL Certificate through distance education and should increase its course offerings in this area. The TEFL program could be expanded to include a certificate for non-native speakers of English. The current in-house business program could be adapted to a distance education

format as another offering, both for native and non-native speakers of English. These courses require a minimum amount of overhead, are easily advertised over the Internet and provide an ongoing revenue source with minimal dependence on seasonality.

To help reduce its overhead, the college should consider renting out excess classroom space. This could be done in two different ways. The first would be to simply lease classrooms to non-competing businesses that might be in need of discussion rooms, workshop locations or training centers. These could be leased hourly or daily and could be made available both during the days or evenings. The second option is to sublease the space to private teachers of non-competing subjects that might be looking to increase their class sizes. A teacher giving sketching classes, for example, would benefit from using the facilities and location of the college. The college could offer a joint marketing proposal which would list their course in a 'continuing education' advertisement for a portion of the revenues. It should be noted, however, that these strategies to sublease space would not have a very large affect on the overall revenues of the school.

6.3.2.3 Increase Economies of Scope

In addition to increasing course offerings for Canadians, the college must add course offerings for international students to supplement their ESL classes. For example, the college needs to diversify into the European market and students from Europe often request classes to prepare for the Cambridge First Certificate of English (FCE). The college should start an FCE course to encourage Europeans to enrol, which will help to strengthen the college by opening up new markets. Market research should be done on the potential for other courses such as hotel management, event planning or specific

business topics such as e-commerce or accounting. The college might also consider partnering with non-competing colleges to offer a broader range of options to their students.

6.3.2.4 Strengthen Relations with Agents

The college must establish a system to make regular contact with both local and international agents. Agents currently provide 65% of the school's ESL revenues and therefore cannot be overlooked. The most cost effective way of doing this would be to maximize e-mail usage by providing regular informative messages that would encourage interaction and develop relationships. The results of this type of marketing may not be as immediate as the firm currently requires but it would be a prudent step to lay a foundation for the summer of 2004.

The college should develop incentive programs to encourage agents to repeatedly refer students. The system should reward agents that consistently send students on a steady basis.

6.4 Decision Criteria

With two main courses of action to choose from, management must decide on whether to prepare to set forth a plan to begin closing down operations or whether to reinvest in the company and implement a plan that will take the college through the winter and into the high season of 2004.

The decision as to which path to take must be based upon the on-going financial results of the school during the fall. Cash flow pro forma calculations predict that from

July through to January an average of \$90,000 will be required to support operations each month, ranging between \$75,000 and \$86,000 with an additional allowance of approximately \$8,000/month for unexpected requirements. As well, pro forma calculations of predicted revenues have been completed based on the lowest monthly revenue in 2002 (\$100,000), and the lowest monthly revenue from the first half of 2003 (\$90,000). Using these past figures, average monthly revenues for the second half of 2003 and January of 2004 have been estimated at less than \$75,000 with a range between \$55,000 and \$100,000. To ensure that the predictions are feasible, these figures have been estimated very conservatively and are comparable to the college's revenues of 2000, after only four years of operations.

The worst-case scenario prediction allows for continued operation of the company providing there is an outside investment of an additional \$80,000 over the period. This is the maximum amount that the owners are willing to invest. The decision of whether to reinvest or divest should be based on the actual monthly cash flow and actual revenues at the college and whether they reach the required levels outlined in the pro forma calculations. The main objective is to continue operations and keep a positive bank balance within the limitations of the pro forma schedule. If the college is able to meet the monthly goals as set out, management should continue operations using the short-term recommendations for the reinvest option. Should the actual monthly revenue and cash flow figures not meet the goals of the pro forma schedule then management must begin to implement one of the options to divest.

6.5 Short-term Recommendations

The recommendations for reinvesting are all focussed on solving the immediate cash flow problem at the college. They are designed to require minimal resources while generating income as quickly as possible, and in particular, during the winter months when the ESL revenues are lowest. After passing through the low season the college can then examine a long-term plan to implement a differentiation strategy by adding value to the product.

Management must evaluate the college's progress on a monthly basis comparing the actual figures for revenues generated and cash expenditures to the pro forma calculations. Should the actual results not meet the criteria set, the divest option should be implemented as soon as possible. However, all activity must be carried out with the goal of remaining open until it is clear that this is not possible. Current plans should not be postponed or altered because there is a *risk* that things may not go well.

July and August must be used to put aside funds and also to begin to build the foundations for autumn revenue-generating programs, in order to ensure enough resources are available to remain in operation through to the end of December. Direct marketing to local students must be started immediately, maximizing local enrolments and revenues during the highest season of the year. At this time, the number of students in the city is at its highest point of the year and the college must maximize its market share as much as possible. In July, plans must be outlined for possible counter-seasonal activities. Decisions should be made regarding which new evening courses will be offered, how classroom space could be sub-leased, and possible new distance education courses. In early August, advertisements for counter-seasonal activities should be placed,

with start dates in September. In August it might be prudent for the school to lay the groundwork for a possible closure by anonymously contacting other schools regarding the possibility of merging or working together, should enrolment drop drastically. It will be too late to begin looking for possible partners by the time the situation becomes critical and a partnership or merger becomes necessary.

On a monthly basis management will be in a position to decide whether or not current operations and the new procedures show enough promise to continue with the reinvest strategy or whether it should begin the option to divest. If the actual revenues and cash flow figures barely meet the outlined goals then management may need to further streamline operations through downsizing or further salary reductions. If management decides that attempts to further streamline current operations will not meet sustain the business and pro-forma goals are not met then it must implement a plan to divest.

There are three possible approaches to closing the school down, all with a focus on protecting the students and causing minimal damage to the reputation of the school and the local industry. A merge or joining with another school protects the industry and could be seen as a positive move by agents. Through the preliminary groundwork done in August, management would have a sense of the options that exist for possible partnerships. A partial closure, relocation or drastic downsizing might allow the school to survive through the winter season with minimal expenses and to get an idea for the strength of the market in 2004 and whether it would be worth reinvesting or permanently closing. Should a permanent closure become necessary, management would need to pick the earliest date possible that would allow it to transfer all the remaining students to new

schools and to give staff enough notice. The objective would be to close the school in an ethical manner with minimal inconvenience to the customers, minimal harm to the industry in Vancouver, and fair treatment to everyone affected by the closure.

6.6 Long Term Recommendations

Along with implementing a short-term action plan to allow for the continuation of operations, the firm must also take immediate steps to ensure success in 2004 and the future. In July the school must decide on its new courses for 2004 that will appeal to a broader range of markets. These courses must be planned and described in the 2004 brochure which must be designed and printed by September. In July management must decide upon which trade shows to attend in the fall of 2003 to ensure that they maximize the college's exposure for minimum costs. It will be important to couple these trade shows with personalized visits to the agents in these countries in order to establish long term, personal relationships with new and old agents.

With a successful short-term plan enabling continued operation of the college and implementation of ideas to lay the foundations for sustained future operation of the college, management will then be in a position to evaluate and possibly begin to implement a differentiation strategy. Initial steps should include a careful and systematic examination of what motivates the customers to buy the product. Focus groups and questionnaires using alumni would be the best source of this information, which would allow for an objective analysis of the industry's customers. Fully understanding how purchasing decisions are made will help the organization locate areas or niche markets which it would then be able to incorporate into a differentiation strategy.

6.7 Conclusion

Winfield College is in a rivivrous industry that is currently going through a very hostile period. Recent events have put the college into a vulnerable position entering a low season with very limited resources. Management needs to immediately begin implementing a short-term plan that will increase revenues and ensure that it continues operations through the winter. These immediate, short-term decisions, combined with long-term marketing and planning, should enable the college to continue into 2004, when management will then be able to examine the process for beginning a differentiation strategy. Once implemented, a successful differentiation strategy will bring about long-term sustainability for the college.

REFERENCES

- Aaker, David A. (2001). Developing Business Strategies. Sixth Edition. New York, NY: John Wiley & Sons, Inc.
- Bukszar, Ed Jr. (2003) Class notes, Simon Fraser University Executive Master of Business Administration Program
- Porter, Michael E. (1985) The Value Chain. In Aaker, David A. (2001). Developing Business Strategies. Sixth Edition. New York, NY: John Wiley & Sons, Inc.(p. 65)
- Porter, Michael E. (1980) Porter's Five-Factor Model of Market Profitability. Aaker, David A. (2001). Developing Business Strategies. Sixth Edition. New York, NY: John Wiley & Sons, Inc. (p. 83)