

IV Overview of the UK educational resource sectors

Introduction

- 4.1 The purpose of this section is to describe the sectors that would be most directly affected by the BBC's proposed Digital Curriculum service i.e. those for educational resources. This descriptive section helps to inform our analysis of the potential definition of the 'relevant' market(s) undertaken in Section VI and the market impact assessment undertaken in Section VIII.
- 4.2 We define the term 'educational resource' as a product/service that contains educational content that can be used for teaching/learning. It therefore excludes expenditure on ICT hardware and other types of resources such as stationery and furniture. We analyse three principal educational resource sectors i.e.
- textbooks and other printed material;
 - CD-ROMs; and
 - online.
- 4.3 From the supply side, we describe the structure of the sectors and the nature of competition. We estimate the size of the sectors and the shares of the biggest suppliers, and assess the position of the BBC. Given the dynamic nature of some of the sectors, estimating their size can be very difficult and inevitably involves a degree of subjective assessment¹⁹. From the demand side, we briefly discuss the nature of the demand for educational resources and the parties involved.
- 4.4 Finally, we consider other parts of the industry and the wider economy that would be affected by the BBC's proposed Digital curriculum service.

Key developments in the UK educational resource sectors

- 4.5 The principal recent developments in the UK educational resource sectors include the considerable increase in public sector funding for ICT in schools and the diversification of suppliers.

Increased ICT resource budgets for UK schools

- 4.6 In recent years, schools have been increasing the amount available for equipment and teaching materials following further delegation of budgets, the moves to self-governing status and the development of specialist schools. The total UK funds available to schools through delegated budget allocations was approximately £22 billion in 1999/2000, split fairly evenly in absolute terms between primary and secondary schools. Some 80% of this expenditure relates to salaries and around £1 billion²⁰ is available for educational suppliers²¹. The expenditure by schools on ICT has increased quite considerably in the last few years. BECTa recently noted that²²:

"For the first time, schools, libraries and other educational institutions have considerable funds to invest in ICT"

- 4.7 Total education funding in the UK is expected to grow by approximately 9% between 2001 and 2004²³, with total educational ICT expenditure expected to grow slightly faster²⁴ than this over the next few years. In primary and secondary schools, total ICT spend increased by over 40% between 1997/98 (approximately £150 million) and 1999/2000 (approximately £220 million)²⁵. Within this

¹⁹ For example, trying to separate the home and school learning environments is problematic given the many overlaps that exist between the two consumer groups and the aggregated format of company results. Furthermore, the boundary of what constitutes an 'educational' resource is often contested.

²⁰ "UK Schools Survey on Budget and Resource Provision", BESA Research, March 2000.

²¹ This includes suppliers of educational resources (e.g. software, books) and other products (e.g. furniture, stationery).

²² See www.becta.org.uk/technology/infosheets/html/managed_services.html

²³ ING Barings broker report, June 2001.

²⁴ UBS Warburg Broker report, January 2002.

²⁵ "UK Schools Survey on Budget and Resource Provision", BESA Research, March 2000.

school ICT expenditure, outlay on software also increased by over 40% between 1997/98 (approximately £27m) and 1999/2000 (approximately £40 million)²⁵.

- 4.8 In December 2001, the British Government pledged £50 million²⁶ in the form of Electronic Learning Credits (eLCs) to the acquisition by English schools of electronic learning resources from private sector suppliers in the first year of Curriculum Online. In addition, the DfES has informed us that at least 15% of 'Grant A' NGfL Standards Funds must be used by schools to fund software or 'digital content'. This is equivalent to around £40 million per annum in 2002/3.

Diversification in the UK educational resource sectors

- 4.9 Driven primarily by advancements in technology, the UK educational resource sectors are undergoing considerable change. It is apparent that:

- **There have been movements by suppliers both up and down the vertical chain.** Many firms that traditionally supplied ICT hardware are facing increased competition and are looking for other markets to enter. For example Research Machines (RM), a leading supplier of computers to schools in the UK, is fast expanding its educational content offering.
- **There has been horizontal diversification within the educational resource sectors.** The movement has mostly been asymmetric, with suppliers of printed resources and CD-ROMs moving into the online sector rather than diversification the other way.
- **Companies in other markets have moved into education via either direct entry or partnerships.** An example of this is CNN, which now provides educational courses through the Internet, videos and television programmes. Internet Service Providers (ISPs) are also exploiting opportunities in the educational resource sectors. AOL has set-up an educational portal with links to content and service providers. To potential partners these firms are particularly attractive, as they provide access to an established customer base and proprietary technology.
- **New suppliers have emerged.** Innovative new service offerings have emerged in the educational resource sectors. For example, in 1997 the educational software resource supplier, Espresso Broadband was formed. Espresso Broadband broadcasts its educational content to schools via satellite.

The principal suppliers

- 4.10 The largest suppliers of educational resources typically have a presence in more than one sector and offer a wide range of ICT software and hardware, although education is not always their primary focus. The current participants include²⁷:

- The publishing group, **Pearson**, often referred to as the global No.1 education company. In 2001, sales from its global education business contributed 60% to total sales (£4,225 million for 2001). Pearson currently has a strong focus in the US²⁸ where it is No.2 in the schools textbook sector. Approximately 10% of Pearson's turnover was generated by its UK activities in 2001, mostly via its sales of printed resources to schools. It also has a strong position in the household educational CD-ROM sector following its purchase of Dorling Kindersley in 2000.
- **Granada Learning** (part of the Granada Media Group), with its extensive experience in developing UK educational programmes. Granada Learning is emerging as one of the leading suppliers of educational resources (including revision books and GCSE revision CD-ROMs in the UK). The

²⁵ In addition to schools budget allocations to ICT, funds are also provided in the form of grants such as central government funded schemes (e.g. NGfL), PTA fundraising and retail voucher schemes. The figures listed for ICT software expenditure do not fully include the receipt of funds from these additional sources.

²⁶ The £50 million is available for the academic year 2002/3 from a mix of Capital Modernisation Fund and other funding in addition to the normal funding provided to schools through LEAs. There has been no further announcement by the DfES as to how these eLCs will be allocated to LEA's/schools nor to the range of goods/services they can buy.

²⁷ Data and statistics based on PwC analysis of company accounts and financial statements.

²⁸ Pearson's US educational online business, NCS, recently announced that operating profits had increased by 47% to £63 million. (Source: Daily Telegraph 05/03/2002).

company provides interactive learning materials to around 90% of UK schools²⁹. The acquisition of Letts, Anglia Multimedia and Black Cat has increased its presence in the school and household sectors. For the year ending 30 September 2001, education accounted for less than 3% (i.e. £40 million) of group turnover.

- ICT supplier, RM, the UK's leading supplier of IT software, services and systems to UK educational establishments. RM provides PC and distribution hardware, software and internet, and support services to schools, often as complete ICT solutions. It has an established hardware base in UK schools³⁰ and is increasing its drive into content provision. For the year ending 30 September 2001, RM achieved a turnover of £242 million³¹, of which 87% was generated in schools and 99% originated from the UK.
- The publishing and information services group, Reed Elsevier, with its strong pedagogical skills developed through its print publishing business. Reed Elsevier has a strong presence in the UK schools publishing sector and is building up its online service offering. For the calendar year 2001, Reed Elsevier's turnover from its education business was £579 million (equivalent to approximately 13% of its global turnover). Reed Elsevier's recent acquisition of Harcourt General has increased its strength in the education sector³², in particular in the US.
- The publishing group, Wolters Kluwer, an educational publisher with interests throughout Europe. The education division of Wolters Kluwer had a turnover of approximately £311 million representing just under 10% of net sales in 2000. In the UK, its principal educational resource activities are undertaken by Nelson Thornes. It publishes mostly printed materials for primary and secondary schools across a wide range of subjects. Approximately 8% of its total publishing revenue was generated through its online activities in 2000.
- The public sector broadcaster, BBC, which currently provides an integrated offering of educational products for schools and households, via its television and radio programming, videos, printed resources, CD-ROMs and websites.
- The UK broadcaster, Channel 4, is also active in the educational resource sectors. Turnover from its education division, 4Learning, exceeded £3 million in 2000. Channel 4 provides a variety of educational resources to schools and households via its television programmes, websites and CD-ROMs.

4.11 This is not intended to be an exhaustive list of the main suppliers of educational resources in the UK. There are many other suppliers (e.g. Oxford University Press, Cambridge University Press, Microsoft, CNN) with a significant position in different educational resource sectors.

The principal consumers

4.12 In practice, the 'consumers' of UK educational resources are predominately teachers and parents. Their consumption or demand for educational resources derives from their interpretation of the needs of end-users (i.e. learners). The demand by parents is influenced by teachers as the latter determine how learning objects should be delivered.

4.13 The demand for different educational resources will vary according to the school, the teacher, the subject and the pupils involved. As technology has developed, there has been some substitution away from the traditional 'teacher-blackboard-textbook' model to one which relies more heavily on a wider variety of resources (e.g. CD-ROMs, online). As we discuss in more detail in Section VI, there is also a strong degree of complementarity between the different educational resources.

²⁹ Bear Stearns Broker Report, 18 September 2000.

³⁰ The BBC estimated that 46% of schools and 90% of LEAs placed an order with RM during 2001.

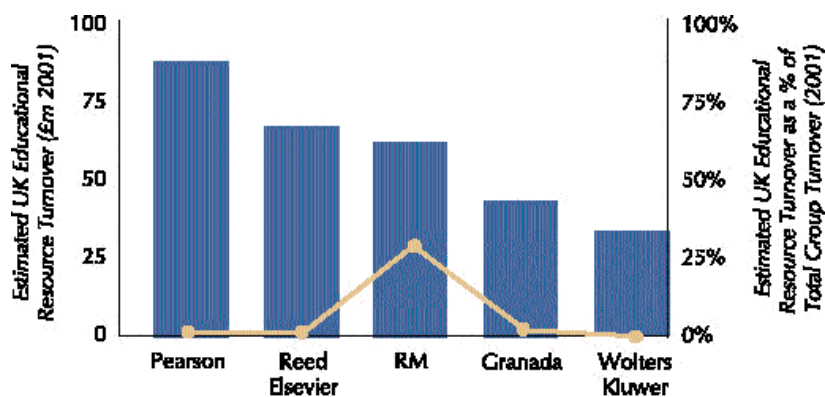
³¹ Approximately 28% of RM's turnover was classified as 'PC & distribution', 25% 'software & internet' and 47% 'services' in 2001.

³² The company earned £376 million from its Harcourt Education and Testing Business, and £203 million from Reed Educational & Professional Publishing.

Size, structure and nature of competition of the UK educational resource sectors

4.14 We estimate that the demand for educational resources in the UK, including textbooks, CD-ROM's and online content, is worth around £350 million per annum. Expenditure on printed resources probably accounts for around two-thirds of this total. Figure 2 depicts educational resource turnover and the proportion of total company turnover attributable to such sales for a selection of suppliers in the UK.

Figure 2: Estimated UK educational resource turnover and the proportion of total group turnover attributable to UK educational resource sales³³



Source: PwC analysis of company accounts and financial statements. The data presented above relates to the company's financial year, which does not necessarily correspond with the calendar year.

Textbooks and other printed material

Sector structure and nature of competition

4.15 Most suppliers of educational printed resources are typically part of a large publishing house. The larger publishing companies derive benefits from economies of scale and scope, a more diversified, yet integrated product portfolio and strong brand recognition. The key value driver in this sector is the school population. Schools in the UK have considerable autonomy as to how they spend their educational budgets to meet the needs of their pupils. As a result, textbook publishers have strong sales forces targeting schools, LEA purchasing parties and high street outlets. Many schools have formed bulk purchasing arrangements with other schools in their region to increase their buyer power and secure more favourable terms with suppliers.

4.16 Suppliers compete on the basis of both price and quality of a school textbook. Reputation of the product/service and the supplier is also an important source of competitive advantage given that parents, LEAs and teachers share such information regularly.

4.17 Suppliers tend to cater for both the home learning and the school sector. The school offering will focus more on textbooks whereas the printed offering to homes is mostly concentrated on study guides and revision material. The latter sector is characterised by fairly low sales per title relative to school textbooks and an increasing move to placing the product online.

Estimated size & shares

4.18 There are around 25,000 primary schools in the UK and 5,000 secondary schools. Within these

³³ Notes to the calculations:

Pearson – Applied sales of Pearson Education UK Ltd (1999) excluding exports and applied growth rates of Pearson's global education business excluding NCS.

Reed Elsevier – Applied sales of Reed Educational & Professional Publishing Ltd (2000) excluding exports and applied growth rate of Reed Educational & Professional's global sales.

RM – Applied "Software & Internet sales" for 2001 and assumed that sales are wholly in the UK.

Wolters Kluwer – Applied sales of Nelson Thornes Ltd (2000) excluding exports. A zero growth rate has been applied since we understand that sales in Wolters Kluwer's education division in 2001 were similar to 2000 (Source: Dow Jones International, 23 January 2002).