

SOCRATIC SCHOOLS

Market Entry Education

Medium difficulty
Candidate-led case

This case focuses on shaping the entry strategy for a chain of schools based in the Middle East, Socratic Schools, who are looking to open a new school in a major global city. It is candidate-led and requires strong case leadership to drive its resolution. It otherwise tests all areas of problem-solving.

Problem definition

Your client is a chain of 10 schools in a Middle Eastern country. The client offers education to children aged 5 – 18 and teaches the International Baccalaureate (IB) curriculum.

The client is considering expanding into international markets by opening a new school in a high-profile city outside of the Middle East. This project is supported by the national government, who are a shareholder in the school chain, and by the national Sovereign Wealth Fund, who would provide a loan below market rates for capital funding.

Much like its existing schools, the proposed international school would be for ages 5-18 and teach the IB curriculum. It would charge fees near the top of the local market in the new country, and it would be mixed gender, non-religious, and mixed ability. The client aims to open the new school within 2 – 3 years.

The strategic goals for the school chain in this launch are threefold:

- To find opportunities for knowledge sharing and pupil/staff exchange between the existing schools and the new international school
- To break even financially and be economically sustainable
- To raise the nation's prestige through a high-end school in a high-profile location

The CEO has asked you to identify a priority city and recommend a go-to-market approach to launch the school

Relevant information

If asked at this stage or later, please share that:

- The client would want to expand outside of the Middle East to Asia, Europe or the United States. However, the client prefers European or American cities to Asian ones for expansion, believing them to be higher profile
- Profitability is only important insofar as the school breaks even
- The aim is to initially open one school only. More could follow in time but that is not a priority at this stage
- It can often be difficult to get real estate approved for a school; it is not just a case of buying a site and using it without approval
- The client does have a long list of cities under consideration, which will be discussed as we get into the case
- The biggest risk from the client's perspective is the reputational impact of opening a school that failed (likely due to low demand). Not opening a school is preferable to the client opening one that is under-capacity

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(thaicnh0729@gmail.com)
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Structuring

Guidance for interviewer

This is a complex problem, and there are many ways in which it can be structured. A strong candidate will think pragmatically about how to build a structure that can enable a solution to the problem in time.

Based on the opening information, the candidate should realize that the key issue for determining an attractive location is a high concentration of wealthy individuals. If the candidate does not mention this factor in their structure, provide a hint before moving on.

The driver tree here presents a two-step prioritisation, in line with the problem definition: first, narrowing down a short-list of cities; second, selecting a target city from this shortlist. If a candidate opts not to proceed in this way, information from driver 1 and driver 2 can be provided simultaneously.

Possible answer

1. Determine a short-list of cities based on a high-level review
 - a. Economic potential:
 - Estimated size of the market for private, international education
 - Competitive intensity for schools in the locality
 - b. Non-economic potential:
 - Distance to home locations (and therefore feasibility of knowledge transfer)
 - Prestige of location
2. Conduct a deeper review of the short-list to identify a priority city
 - a. Current demand and capacity
 - b. Expected costs, including up-front investment
 - c. Quality and availability of talent, facilities and resources
 - d. Regulatory restrictions
3. Go-to market strategy
 - a. Opening the school
 - Buy vs build
 - Facilities
 - Talent
 - b. Filling the school
 - Differentiated proposition (e.g., brand, facilities, price, extra-curriculars, teaching method)
 - Attracting the first cohorts of students (e.g., outreach efforts, referral networks, international exchanges, buy strategy)

Driver 1: Determine a short-list of cities based on

Relevant information

If asked, please share that the client's intended target market for the school is the children of wealthy expats.

Guidance for interviewer

Allow the candidate to explore what factors they think are important for conducting a high-level review and creating a short-list of potential cities. When they hit on demand potential, share Exhibit 1.

A good candidate will quickly realize that they need a simple measure (e.g. number of rich expats) to get to a shortlist of cities.

Encourage the candidate to calculate the target market if they don't do so directly. If a candidate is unsure, suggest that rounding and approximation is appropriate to handle the exhibit.

While other factors might be important to refine the short-list further, encourage the candidate to focus on demand only at this stage.

Possible answer

We should start with a simple measure like demand and attempt to narrow down a short-list of cities based on this.

Given the client's target market, the most important factor in deciding which city to launch the school in is the local population of wealthy expats. Let's calculate the size of this target market in each city.

Size of target market in each city:

Tokyo: ~65k (20m x 4% expats x 8% of expats living in wealthiest decile area codes)

Paris: ~165k

London: ~240k

New York: ~270k

Istanbul: ~90k

Washington DC: ~230k

Brussels: ~120k

Beijing: ~130k

Based on this initial assessment, four cities stand out as having the highest market potential: New York, Washington DC, London, and Paris.

To decide on a priority city out of the four, however, we'll need to do more detailed analysis on other factors, such as competition and regulatory restrictions.

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(thaicnhu72@gmail.com)
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Driver 2: Conduct a deeper review of the shortlist

Guidance for interviewer

To tackle this driver, candidates must use qualitative data and conduct an estimation in order to narrow down the choice of cities.

First, expect the candidate to brainstorm factors they would include in a due diligence to help decide on which city to focus their attention. When the candidate identifies at least three of the 6 factors shown in Exhibit 2, share the exhibit. Ask for their insights and discuss them.

A candidate with a shortlist similar to the exhibit will quickly realize that it's simple to eliminate Paris and Washington DC and will debate between London and New York City

Once the candidate reaches this point, ask how they will narrow choice further. Once they mention something related to narrowing down demand more precisely, suggest that client would be interested in knowing the share of their addressable market needed to establish a school, and hint that this could be a good deciding factor. Provide supporting information below as requested

The numerical exercise will lead most candidates to settle on London as the priority. If a candidate still sees New York as a potential launch city, expect them to have a clear logic for why this is the case.

Relevant information

If asked, please share the below information;

- The school must fill 200 places per school year, for each of 13 school years (given ages 5 – 18)
- Assume 50% of expat adults have children
- Assume 75% of all expat children are of school age (5 – 18) with equal distribution across all ages/school years
- Assume 80% of expats would send their children to international IB schools in London, while 40% would do so in New York. This is driven by the relative lack of popularity for IB in New York, and a greater concern with Middle Eastern ownership of the institution
- Assume a 50% acceptance rate for students who apply to enrol, regardless of city

Possible answer

One of the key factors that will drive the success of the school is whether there is enough demand in the local city for additional schools of this kind. Paris and Washington DC both have schools that are operating below capacity, which indicates there is an over-supply in the market. These two cities do not look attractive for that reason and would be a high risk to enter.

London and New York City are therefore the most interest in the type of school the client would open.

However, there's a trade-off. In London it would be harder to find a good site to build on and it would take a long time to get approval for the build, which poses a risk to the momentum of the projects. On the other hand, the client has good connections with providers there and the sentiment is positive.

New York City would be easier and faster to find a site in, but the sentiment appears to be more hostile towards a school of this type, based on the due diligence information.

So, there is a trade-off to be made between speed and political peace.

To further compare both cities, we can estimate a the share of the addressable market that our client would need to capture in each for a successful launch. This will give us a good intuition as to whether one city is likely to be more favourable than the other for the launch.

Let's cover the following steps for this estimation:

Share of market required = Number of school children required / Addressable market

Addressable market = Rich expat population x share of children among population x relevant IB school age share x interest in IB schools for children x likelihood to pass entrance exam

To simplify, we'll also assume an average of 4 people per expat household: 2 parents, 2 children.

Number of school children required = 200 x 13 years = 2600 children

Addressable market (London) = 240,000 x 50% x 75% x 80% x 50% = 36,000 kids

Market share required (London) = 2,600/36,000 = ~7%

Addressable market (New York) = 270,000 x 50% x 75% x 40% x 50% = 20,250 kids

Market share required (New York) = 2,600/20,250 = ~13%

Based on these calculations, London looks like a far more realistic option. We'd need only around 7% of the target market to enrol in London for our school to succeed, whereas we'd require nearly double this share in New York.

Driver 3: Determine a go-to-market approach

Guidance for interviewer

After identifying the most appropriate city for the client, the candidate should then turn to the go-to-market strategy.

If they do not take the initiative directly, encourage the candidate to consider the next steps and any creative ideas they have for getting the project off the ground quickly. In particular, they should identify the challenge of recruiting the first cohorts of students without an existing track record of academic achievements and think creatively about ways to work around this.

Note that a pro-London answer must explain how to overcome the Real Estate issue and a pro-NYC answer must explain how to overcome the issue driving the negative focus group.

Possible answer

The client should consider how to best enter the market (build or buy), how to shape its marketing plan, and how to get the school up and running in practical terms.

1. *When it comes to opening the school, the client has two options to consider:*
 - a. *Build: most flexibility in design, but would take longer to complete and large sites are typically unavailable in London*
 - b. *Buy: Provides less flexibility in design and depends on availability of suitable properties; however, it would likely be the best method to secure an appropriate site quickly; if we were able to acquire and rebrand an existing school, we might also be able to retain some of the staff*

2. *On a filling the school, recruiting the first cohort of students without an existing track record of results will be a significant challenge. There are a number of ways this could be mitigated*
 - a. *Buy and rebrand an existing school: This would allow to retain the existing cohorts of students and claim the school's track record*
 - b. *Organize an exchange with the best students from our existing network of Middle Eastern schools in the last year of their studies, to claim credit from their results*
 - c. *Invest heavily in direct outreach, recruitment events and referral network*
 - d. *Build a differentiated proposition vs existing school (e.g., lower tuition, better facility, more extra-curricular and international exchanges, personal tutoring)*
 - e. *Start with a small class size to ensure high selectivity*

Conclusion

What's your overall recommendation to the client?

We were asked which international city the client should open a new school in and the best approach for making the entry into the market. We've found that the best city available to the client is London.

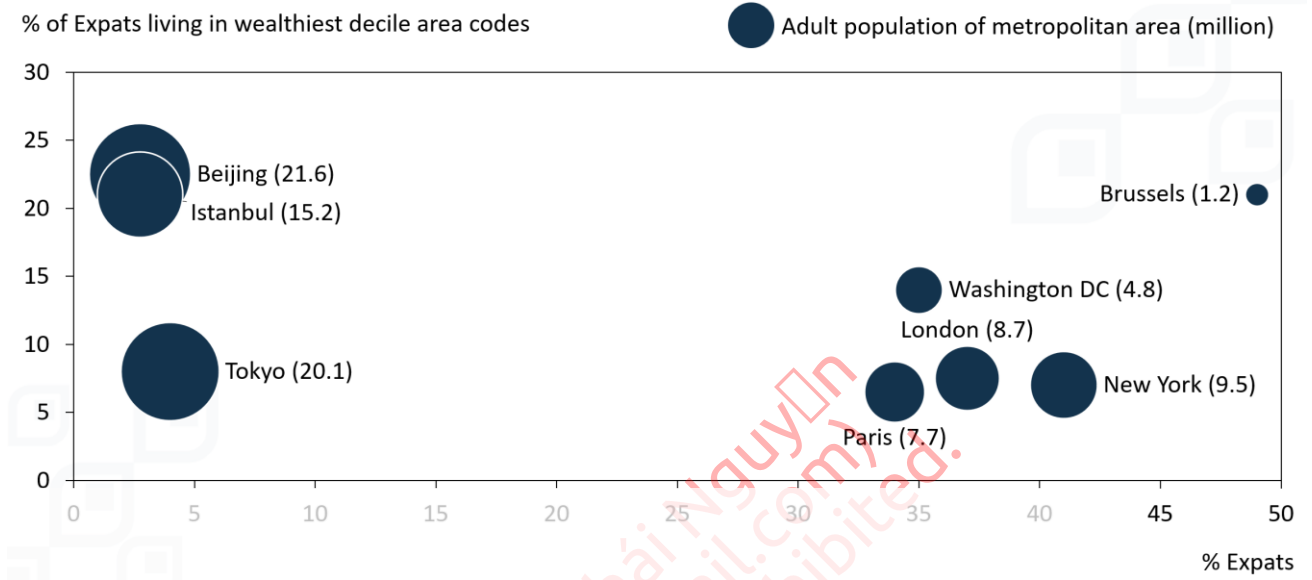
Specifically, we've uncovered the following from our assessment:

- An assessment of the top 10 cities suggested that only Paris, London, New York, and Washington DC have sufficient demand potential*
- A detailed assessment of the four cities suggests London would be the best option for the client because it has a large population of wealthy expats, offers high potential for us to build a school quickly, and has good political ties to the Middle East. While New York also has favourable attributes, the addressable market there is far smaller*
- From an implementation perspective, the client must deal with the issue around there being a small number of building sites in London and a potentially long time to wait for the relevant approval. To overcome these issues, the client could consider buying an existing site as part of its go-to-market approach in London*

As a next step, we should confirm the hypothesis by testing economic assumptions for opening a school in London in more detail. Assuming this assessment is positive, I recommend that the client speaks to the relevant parties involved to get a final sign-off and buy-in for this decision. I also recommend they quickly begin to look for potential sites or schools to acquire as securing a site will be one of longest lead-time aspects of the implementation.

Exhibits

Exhibit 1: Target market population by city



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 (thaicnh0729@gmail.com)
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Exhibit 2: Research conducted by city

City	Demand	Competition	Regulation	Real Estate	Relation with home country	Education Quality
Tokyo	Top international schools over-subscribed, since relatively few in number	A small number of quality international schools	Highly restrictive; approval to open an international school likely to take many years	Sizable sites are extremely scarce, and land use permission can take a long time to obtain	Loose political relations; no focus group run	High quality education at all ages
Paris	Top international schools under-subscribed; expats use local schools; prefer French Bacc. to IB	A small number of quality international schools	Hard to open for profit international school; heavy labour regulations	Sizable sites quite scarce; can take 1 year to get land use permission	Moderately strong political relations; no focus group run	Excellence focused on French Bacc.
London	Top international schools over-subscribed; very strong interest in focus group	Very strong elite schools, most not IB focused, chosen by parents across the world	Can open a school in two years; some flexibility on staff & curriculum	Sizable sites are scarce; it takes 1-2 years to get building use approval	Very Strong relations with the providers' home country; fairly positive focus group	Perceived as having world leading private schools; some IB expertise; strong education ecosystem
New York City	Most international schools heavily over-subscribed; very strong interest in focus group	Strong elite schools, many IB focused	Can open a school in one year; strong flexibility on staff & curriculum	Sizable sites can be hard to find, but easy to switch use of real estate	Very negative focus group, opposed to Middle Eastern operator	Good reputation for elite education; centre of excellence for the IB
Istanbul	Most international schools slightly below capacity	Quite high competition for expat population	Restrictive regulations; it can take 2-3 years to open a new school	Sizable sites are relatively straightforward to find	Some political relations with home country; focus group feedback mixed to suggestion of new school	Good education levels, particularly strong elite international schools

Washington DC	Most international schools at or below capacity; moderate interest in focus group	Strong international & domestic school provision (expats often use domestic schools)	Can open a school in one year; flexibility on staff & curriculum	forward to find sizable sites at moderate cost	political relations with home country; quite hostile focus group	reputation for elite education
Brussels	Most international schools heavily over-subscribed; very strong interest in focus group	Strong international & domestic school provision (expats often use domestic schools)	Can open a school in two years; flexibility on staff & curriculum	Sizable sites can be hard to find, but easy to switch use of real estate	Moderately strong political relations; no focus group run	Good reputation for elite education; centre of excellence for the IB
Beijing	Most international schools slightly below capacity	A small number of quality international schools	Can open a school in two years; limited flexibility on staff & curriculum	Sizable sites can be hard to find, but easy to switch use of real estate	Very negative focus group, opposed to Middle Eastern operator	Good reputation for elite education

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 (thaicnh0729@gmail.com)
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