Understanding the Affordable Private School Market in India

Program to Improve Private Early Education (PIPE)
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5 key objectives of the research

1. Understand the **Indian APS market**

2. Understand **APS owners’ buying process for ‘non-traditional’ purchases** i.e., purchases not uniformly made across schools, especially those linked to improvements in quality

3. Assess how **APS owners view the Early Childhood Education (ECE) business**

4. Understand how the **ECE section of an APS functions**

5. Identify the **top challenges** faced by APSs, and the approach APS owners take to address these challenges

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1. Improvement in quality is defined as the owner’s perception of a positive change in any aspect related to the school
Findings are based on interviews with a cross-section of stakeholders, observations at APSs, and secondary research.

**Primary research**
- **Structured interviews at 28 schools across 3 cities** (Bengaluru, Delhi, Hyderabad)
  - 28 APS owners
  - 19 ECE teachers
- **Structured interviews with 31 experts and solution providers**
- **Informal interviews with owners and teachers in 20 schools** in Mumbai, Pune, Hyderabad and Delhi (in addition to the structured interviews)

**Secondary research**
- Review of **existing research** on key areas, including:
  - **Customers** (Gray Matters¹, MSDF²)
  - **Business economics** (Gray Matters³, MSDF²)
  - **Education policy** (Dr. Archana Mehendale⁴, Accountability Initiative⁵)
  - **Quality** (CECED⁶, Pratham⁷)
  - **Sector wide trends** (Ernst & Young⁸)
- Findings from FSG research⁹ aimed at understanding customer behavior and drivers of that behavior

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2. MSDF, 2014, “Market Assessment of Affordable Private Schools in Five Cities”;
5. Accountability Initiative, 2015, “SSA Budget Brief”;
6. CECED, 2015, “Indian ECE Impact Study- 1”;
8. Ernst & Young, 2012, “Private Sector’s contribution to K-12 education in India: Current impact, challenges and way forward”;
9. FSG primary customer research of 4,179 households in NCCS (National Consumer Classification System) classes A3-D1 (April-July 2015)
# Contents

1. Scope and objectives of PIPE research on the APS market in India

2. **APS market in India**

3. The APS business

4. Motivations of APS owner

5. Buying behavior of APS owner

6. ECE provision and pedagogy in an APS

7. Introduction to PIPE and FSG Inclusive Markets

8. Appendix
On the basis of control, schools can be divided into two groups. PIPE focuses on APSs – low-fee, unaided private schools

**Schools in India**

- **Private Schools**
  - **Private Aided Schools**: Private schools that receive government grant-in-aid to cover costs such as teacher salaries
  - **Private Unaided Schools**: Private schools that do not receive any grants from the government
  - **Expensive Private Schools**: Private unaided schools with fees over INR 1,500/month
  - **Affordable Private Schools**: Private unaided schools with fees under INR 1,500/month

**Government Schools**

* This definition is based on a synthesis of the following reports: "Education Technology in India: Designing Ed-Tech for Affordable Private Schools", by Hila Mehr et al. (2013); "Affordable Private Schools (APS) Sector Analysis Report-2012" by Gray Matters Capital (2012); "Market assessment of Affordable Private Schools in Five Cities", by MSDF (2014)
FSG estimates that there are around 1.5 lakh APSs in urban India

- FSG estimates suggest urban India could have anywhere between 1.3 -1.7 lakh APSs
  - The mid-point of this range is around 1.5 lakh APSs
- Please see the next slide for detailed calculations

Other sources of information on APS numbers / enrolments

- Noted APS expert **James Tooley** has estimated that **70 percent** of urban Indian children (~65 million) are in **private unaided schools**\(^1\)
- Educationist Geeta Gandhi Kingdon has calculated that India (rural and urban) has **around 2.9 lakh private unaided schools** (in 2014-15)\(^2\)
- As per the **8th All India Educational Survey**\(^4\), urban India had approximately **80,000 private unaided schools** (in 2009)

There is no current data on the total number of private schools in India. Data from the official source (District Information Urban India System on Education (DISE)) does not include all private schools\(^2,3\)

1. James Tooley (Professor of Education Policy and Director, E.G. West Centre, Newcastle University ) in “Understanding parental choice for Budget Private Schools”, Report on Budget Private Schools in India 2016-17, Centre for Civil Society (2017)
4. Eighth All India Educational Survey conducted by the National Council for Educational Research and Training (2009)
Estimating the number of APSs in urban India – detailed calculations

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<thead>
<tr>
<th></th>
<th>Scenario 1</th>
<th>Scenario 2</th>
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<tbody>
<tr>
<td>Number of children aged 3-5 (both inclusive) in urban India(^1)</td>
<td>19,139,027</td>
<td>19,139,027</td>
</tr>
<tr>
<td>% of children in A3-D1 category in urban India(^2)</td>
<td>69.41%</td>
<td>69.41%</td>
</tr>
<tr>
<td>Number of children in A3-D1 category in urban India (3-5 years, both inclusive)</td>
<td>13,284,399</td>
<td>13,284,399</td>
</tr>
<tr>
<td>% of these children going to ECE in APS (3-5 years)(^3)</td>
<td>86%</td>
<td>86%</td>
</tr>
<tr>
<td>Number of children in A3-D1 category in urban India going to ECE in APS</td>
<td>11,424,583</td>
<td>11,424,583</td>
</tr>
<tr>
<td># of children from other segments going to APS (from A2 and D2 assuming 12% from each of those categories)(^4)</td>
<td>390,436</td>
<td>390,436</td>
</tr>
<tr>
<td>Number of children going to ECE in APS in urban India</td>
<td>11,815,019</td>
<td>11,815,019</td>
</tr>
<tr>
<td>Average enrolment in ECE in an urban APS(^5)</td>
<td>90</td>
<td>75</td>
</tr>
<tr>
<td>Number of APSs</td>
<td>131,278</td>
<td>157,534</td>
</tr>
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2. Assuming that the proportion of children by socio-economic classes is the same as the distribution of households. Data from Indian Readership Survey 2014 (see slide 67)
3. FSG primary customer research of 4,179 households in NCCS classes A3-D1 (April-July 2015)
4. FSG assumption
5. FSG assumption based on schools in research sample
The APS market is highly fragmented, and a large number of standalone schools operate within a small geography.

Situation in APS market

- Most dense, low-income communities have nearly **30-40 APSs in a 2-km radius**¹
- Only **1/3rd** of the APSs are **part of a chain**¹
- **82%** of these chains have **less than 5 schools**¹

Illustration: **89 APSs in 12 sq. km. area in a Hyderabad locality (not exhaustive)**²

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¹ "Affordable Private Schools (APS) Sector Analysis Report-2012" by Gray Matters Capital (2012); ² APS location data: National Independent School Association (NISA)
The proliferation of APSs is being driven by demand from parents and profitability of the business

1. **Low-income parents prefer APSs to government schools**
   - FSG research shows that **87% of urban low-income parents** are sending their ECE-age children to APSs
     - Parents associate government schools with **poor quality** education and a **lack of good facilities**
     - Parents also feel government schools are **attended by students from poorer families**, and do not want their children to associate with them
     - ‘**English-medium**’ schools are preferred as parents feel that being in an ‘**English-speaking environment**’ would help their child pick up the language – important for success later in life

2. **APSs have low costs and running an APS is a profitable business**
   - APSs are able to operate at a **lower cost per child** compared to even government schools
     - A study by Muralidharan and Sundararaman (2015) shows private schools were able to achieve similar level of learning as government schools for **around one third of the cost**
   - **80%+ APSs are making an operational surplus**
   - Successful APSs can make **profits of over INR 1.5 million per year** (~USD 25,000)
   - The **APS market** in India is estimated to be **around USD 5.2 billion**

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1. FSG primary customer research of 4,179 households in NCCS (National Consumer Classification System) classes A3-D1 (April-July 2015);
3. “Affordable Private Schools (APS) Sector Analysis Report-2012” by Gray Matters Capital (2012);
4. FSG estimates, based on schools in research sample. See slides 27 and 31 for detailed estimates;
There are multiple levels of regulation that APSs must comply with, but these are often not followed

**In principle, APSs are required to comply with provisions of...**

**Right to Education (RTE) Act**
- APSs need to reserve 25% seats for Economically-Weaker Sections (EWS)
- APSs need to fulfill minimum requirements relating to infrastructure, teacher-student ratio, teacher qualifications, etc.
- Schools need to obtain recognition from the State Department of Education, in the form of an NOC which is renewed every 3 years
- The MHRD is supposed to shut schools that do not comply with the above

**State-level regulations**
- State Departments of Education, and legislatures, often create additional regulations for schools, as education is a concurrent subject
- For instance, Maharashtra introduced an Act in 2011 which mandated approval from a Parent-Teacher committee before a fee hike could be introduced

**...However, in practice implementation is often poor, and uneven across states**

**Implementation**
- While States like Odisha have filled only 2% of their EWS seats, Rajasthan has filled ~70%¹
- Only 58% of schools have a playground that meets the RTE’s infrastructure requirements¹
- Studies show a large number of schools continue to run without recognition²
- While ~3,000 schools have been shut down, expert interviews showed that these schools often reopen under new names in a few days ³, ⁴

**Implementation**
- In Maharashtra, very few schools have formed this committee, but school managements have hiked fees⁵

“The government has not followed RTE closely. If you close private schools, there will be people marching on the Minister’s office”

– Policy Analyst

Profile of a typical APS (1/2)

Ownership

- APSs are usually run either by individual owners or by a family, who are a part of the local community.
- The owner does not necessarily have prior experience of working in the education field.

Size and composition

- The typical APS is small in size, with enrollment of around 400 students.
  - Few successful APSs grow to 1,000+ students
  - 10-20 sq. ft. of area per student
- ~80% of schools have a pre-primary facility and 69% of schools do not go beyond Grade 8.

Profile of a typical APS (2/2)

- Schools usually have basic facilities such as proper functioning toilets, drinking water and first aid
- However, **only 36% APSs have a playground**¹
- Nearly all schools have blackboards (99%), and even computer labs (70%)¹
- However, very few schools have science labs (13%) or a library (24%)¹

Summary: Profitability and demand drive growth in the poorly-regulated, highly competitive and fragmented APS market

- **APSs form a large chunk of schools in India**: As per government data, 39% of schools in urban India are APSs. Independent studies indicate that this proportion might be much higher in reality as a substantial chunk of private schools are not listed in government records.

- **The APS business has low entry barriers and is highly fragmented**: APSs are generally run by individual owners or families that do not necessarily have prior experience of working in education. Only one-third of APSs are part of a chain, and more than 80% of these chains have less than 5 schools.

- **Low-income parents prefer sending their children to an APS over a government school**: Close to 90% of urban low-income parents prefer APSs to government schools due to English-medium teaching and low teacher absenteeism.

- **APS teachers generally lack required qualifications and are poorly paid**: Most APS teachers lack formal teaching qualifications, and may not even have completed college. The average salary for an APS teacher is around INR 4,000/month.

- **Adherence to regulation is low**: An elaborate regulatory structure exists at multiple levels, but most regulations are not enforced. Enforcement is also uneven across states.
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Running a successful APS is potentially a very profitable business…

### Illustrative income statement of an APS
(Indicative calculations based on owner interviews and PIPE estimates)

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<th>Revenues</th>
<th>Costs</th>
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<tr>
<td></td>
<td>All numbers in INR unless otherwise stated</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Average fee per child per month(^1)</td>
<td>860</td>
</tr>
<tr>
<td>Number of children in school</td>
<td>390</td>
</tr>
<tr>
<td>ECE years</td>
<td>3</td>
</tr>
<tr>
<td>Highest grade</td>
<td>10</td>
</tr>
<tr>
<td>Average number of children in each grade</td>
<td>30</td>
</tr>
<tr>
<td>Gross monthly fee revenue</td>
<td>335,400</td>
</tr>
<tr>
<td>Loss due to fee delinquency per month</td>
<td>(16,770)</td>
</tr>
<tr>
<td>Delinquency rate</td>
<td>5%</td>
</tr>
<tr>
<td>Net monthly fee revenue</td>
<td>318,630</td>
</tr>
<tr>
<td>Net annual fee revenue</td>
<td>3,823,560</td>
</tr>
<tr>
<td>Total commissions from books and uniforms</td>
<td>307,125</td>
</tr>
<tr>
<td>Average annual cost of books per child</td>
<td>1500</td>
</tr>
<tr>
<td>Average annual cost of uniforms per child</td>
<td>750</td>
</tr>
<tr>
<td>Margin offered to owner(^2)</td>
<td>35%</td>
</tr>
<tr>
<td>Net annual revenues</td>
<td>4,130,685</td>
</tr>
<tr>
<td>Net annual revenues (USD)(^5)</td>
<td>63,549</td>
</tr>
</tbody>
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1. Average fee of APSs in research sample (excluding book and uniform costs) from PIPE research on APS owners’ buying behavior; 2. Assuming the mid-point of the 30%-40% margin range mentioned by APS owners during research; 3. PIPE estimates; 4. Assuming USD 1 = INR 65
“I paid INR 6.5 lakh in cash (USD 10,000) to buy some land for an additional classroom”

“I bought this play-set for my school and it cost me INR 1.3 lakh (USD 2,000)”

“I am paying for my nephew’s MBBS degree in the US”

“I loaned my neighbor INR 20 lakh (USD 31,000) to start a clinic”
Schools earn revenue through a variety of fees that are collected at different intervals.

Illustration of various fees charged by APSs

Start of the academic year
- Annual fees
- Admission fees
- Text book charges

Month 1
- Monthly fees

Month 2
- Monthly fees
- Exam fees

Month 3
- Monthly fees
- Picnic charge

Month 4
- Monthly fees
- Term fees
- Computer lab fees

Month 5
- Monthly fees
- Exam fees

Month 6

Schools may also charge activity specific fees (e.g., extra fee for a karate class or a school outing).
Successful schools are able to increase fees periodically, but to a limited extent

APS owner’s response to the question: “How often do you raise your fees?”

Frequency of fee increase

- **72%** Every year
- **7%** Once every 2-3 years
- **10%** Longer period/no fixed period
- **7%** No information

N=28

**Fee increases**

- Most schools in the sample increased fees every year
- The increase is typically limited to below 10%
- The ability to increase fees is constrained by:
  - Parents’ ability to pay
  - Competition within the micro-market
- Schools do not always need a new intervention / improvement to justify the fee increase
**Commissions on the sale of products to parents are a substantial source of additional income for APSs**

- **Commissions** on sale of products to parents (e.g., text books and uniforms) can constitute close to **20% of an APS’ net earnings**
- Commission on sales represent pure profit for the APS, with no associated costs
- APSs can earn **margins of around 30-40%**, and consider the margin offered a key criteria for selecting a supplier

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**Illustrative case study**\(^1\) of importance of commission from text books and school uniforms

<table>
<thead>
<tr>
<th>Revenues (INR)</th>
<th>Scenario 1 (30% margin)</th>
<th>Scenario 2 (35% margin)</th>
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<tbody>
<tr>
<td>Average fee per child per month(^2)</td>
<td>860</td>
<td>860</td>
</tr>
<tr>
<td>Number of children in school</td>
<td>390</td>
<td>390</td>
</tr>
<tr>
<td>Gross annual fee revenue</td>
<td>4,024,800</td>
<td>4,024,800</td>
</tr>
<tr>
<td>Annual fee delinquency (assuming 5% delinquency rate)</td>
<td>(201,240)</td>
<td>(201,240)</td>
</tr>
<tr>
<td>Net annual fee revenues</td>
<td>3,823,560</td>
<td>3,823,560</td>
</tr>
<tr>
<td>Average annual cost of books per child</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Total revenue from books</td>
<td>585,000</td>
<td>585,000</td>
</tr>
<tr>
<td>Total earnings from commission on books</td>
<td>175,500</td>
<td>204,750</td>
</tr>
<tr>
<td>Average annual cost of uniforms per child(^3)</td>
<td>750</td>
<td>750</td>
</tr>
<tr>
<td>Total revenue from uniforms</td>
<td>292,500</td>
<td>292,500</td>
</tr>
<tr>
<td>Total earnings from commission on uniforms</td>
<td>87,750</td>
<td>102,375</td>
</tr>
<tr>
<td>Total earnings from commissions</td>
<td>263,250</td>
<td>307,125</td>
</tr>
<tr>
<td>Net annual profits of school</td>
<td>1,344,810</td>
<td>1,388,685</td>
</tr>
<tr>
<td>Commission earnings as % of net profits</td>
<td>19.58%</td>
<td>22.12%</td>
</tr>
</tbody>
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1. Rough estimates based on FSG research; 2. Avg. fee of APSs in research sample 3. Assuming two sets cost INR 1500 and are replaced once every two years
Common challenges faced by APSs (1/4)

APS owner’s response to the question: “What are the biggest challenges that you face?”

Parent engagement

Owners’ response
- Some parents ‘do not care about the child’s education’ and therefore do not engage with the school
- Some parents have ‘unrealistic expectations’ about what the school can achieve for the child
- Some parents are ‘uneducated and cannot support the child at home’

PIPE analysis
- While ‘disengaged parents’ was one of the most frequently reported challenges, it did not appear to be a major challenge in practice
- Owners were often referring to only a minority of parents as being disengaged
- Teachers also described how parents would often complete the child’s homework themselves, indicating a considerable level of engagement

Frequency of responses (n=28)*

- Parent engagement: 71%
- Fee collection: 64%
- Space: 39%
- Teacher retention/recruitment: 32%

*Responses to an open-ended question with multiple responses possible
Common challenges faced by APSs (2/4)

APS owner’s response to the question: “What are the biggest challenges that you face?”

Fee collection

Owners’ response
- 20-25% of parents are behind on fee payments
- 5-10% do not pay at all
- Parents often demand discounts on the listed fee

PIPE analysis
- To reduce risk, some schools collect 50% of the total annual fee upfront and the rest in 2 (or more) equal instalments
- Owners anticipate the need to provide discounts and quote higher fee amounts
- Owners price discriminate between parents depending on their ability to pay, offering larger discounts to those who have a lower ability to pay

Frequency of responses (n=28)*

- Parent engagement: 71%
- Fee collection: 64%
- Space: 39%
- Teacher retention/recruitment: 32%

*Responses to an open-ended question with multiple responses possible
Common challenges faced by APSs (3/4)

APS owner’s response to the question: “What are the biggest challenges that you face?”

Frequency of responses (n=28)*

- Parent engagement: 71%
- Fee collection: 64%
- Space: 39%
- Teacher retention/recruitment: 32%

**Space**
- Owners’ response
  - Lack of space limits the school’s ability to increase student numbers

**PIPE analysis**
- Classrooms in schools with limited space are cramped and have little or no room for activities
- Most schools have some free space in the corridors or the central court of the school, where some activities could be conducted

*Responses to an open-ended question with multiple responses possible*
Common challenges faced by APSs (4/4)

APS owner’s response to the question: “What are the biggest challenges that you face?”

Teacher retention / recruitment

Ownership’s response
- Teacher attrition is as high as 50% in some schools
  - Teachers may move to competing schools who pay slightly higher wages, or may discontinue for personal reasons
- There is a scarcity of “good” teachers

PIPE analysis
- Owners often recruit untrained teachers for ECE and are able to replace them relatively easily
- Frequent churn of teachers, and the ability to hire untrained teachers, helps owners keep salaries low
- Owners seldom invest in the professional development of teachers, despite hiring untrained teachers

Frequency of responses (n=28)*

- Parent engagement: 71%
- Fee collection: 64%
- Space: 39%
- Teacher retention / recruitment: 32%

*Responses to an open-ended question with multiple responses possible
Summary: APSs are run like small businesses, owners have limited education but understand parent expectations

- **APSs can be a very profitable business**: Successful APSs can make profits of over INR 1.5 million per year (~USD 25,000)

- **Most APS owners are driven by economics**: APSs tend to be run as businesses, and decisions regarding the school are driven by the impact on revenue and cost

- **Successful APSs are able to regularly raise fees, but to a limited extent**: Fees are often increased annually and are not necessarily linked to new investments/improvements in the school, but the ability to increase fees is constrained by the parents’ ability to pay and the level of competition in the micro-market

- **‘Commission’ on goods is an important source of income**: Commissions on text books and uniforms can account for ~20% of income for an APS, and are an important factor when owners select suppliers
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A typical APS owner is a small businessman looking to differentiate and grow his business

Name: Kamal Kumar Sharma
Age: 34
Education: Graduate
Years in-charge of school: 6
Prior experience: Owned a real estate brokerage firm

- Has inherited the school which was started by his father
- Divides his time between the school and a real estate business
- Has hired a Principal to take care of most of the day-to-day affairs of the school
- Believes that parents are not interested in quality and only run after big brands and gimmicks
- Feels increasing fees is not easy as the newer schools are happy to undercut fees in attempt to lure parents
- Wants to add a new building to increase his school’s capacity
- Faces challenges with fee collection, and bureaucratic issues due to RTE

Note: Fictional portrait for illustrative purposes only, based on FSG primary research using qualitative interviews
APS owners often view the school as a business, and tend to be primarily motivated by economics

What drives the typical APS owner’s decisions about the school?

**Financial motives are the primary drivers for running APSs**

- APSs are often run as businesses (family businesses in many cases).
- Decisions about the school are therefore analyzed on the basis of their impact on costs and revenues.
- Some owners may believe that improving quality could lead to better financials in the long-term.

“I cannot introduce anything for which the parents are not willing to pay”

**Social**

- APS owners enjoy a certain standing within the local community.
- Being seen as providing ‘quality’ or ‘caring about students’ can enhance this standing, and may drive some decisions made by the owner

“My school is well-respected in this community and everyone greets me with respect”

**Altruistic**

- Some owners may be committed to improving the quality of education for its own sake.
- Decisions to invest in certain aspects may therefore be driven by an ‘altruistic’ motivation to improve quality

“I noticed that my students were bored in class and wanted to do something to engage them”

Some owners are also driven by social and altruistic motives
APS owners operate in a highly competitive environment and under multiple pressures

- **APS owners are running a difficult business**
  - APSs operate in a **highly fragmented** and **competitive** environment
  - **Increased competition** has **limited** the **ability** of APSs to **increase fees**
  - A **small proportion** of schools is struggling with **falling enrolment** numbers due to increased competition
  - Parents often **delay paying fees** and also **negotiate discounts**, leading to challenges in managing **cash flows**
  - **Teacher attrition** is high
  - Owners have to contend with **multiple regulations** and **rent-seeking behavior** by the official machinery

- **Parents are often reluctant to pay higher fees and this makes it difficult for owners to invest in intangibles or in product that show impact over a longer period**
  - Low-income parents are **skeptical of additional spending**
  - APS owners **generally pass on costs** of any new purchases (products/services) to parents (often with a markup)
  - Any product or service that is **not visible to parents** (e.g., teacher training), or one that is likely to show significant results only over a **longer-term**, is a difficult acquisition for the APS
Affordable private school owners know that parents generally judge quality of a school on the basis of easily visible factors.

**Key factors on which APS owners believe parents judge schools**

- **English language**
  - Conducting classes in English medium
    - Considered a minimum requirement
    - Also emerged during the PIPE customer research as a key requirement by parents
  - Speaking more English words, either in conversation or as rhymes
  - Writing English alphabets and words, particularly in cursive style

- **10th standard results**
  - Percentage of students that pass the exam
  - Results of the best performing students
  - Results of entrance exam for other schools, in cases where the school itself does not offer 10th standard (e.g., many APSs in Delhi offer classes only till 8th standard)

- **Physical infrastructure of the school** (e.g., well maintained building)

- **Technology-related interventions** (e.g., smart class system, computer lab, SMS alerts)

- ‘Discipline’ and ‘confidence’ exhibited by children, often judged in relation to other children in the locality or building
Summary: APSs are generally run by financially-driven owners who have a keen sense of parent expectations

- **APS owners often view the school as a business, and tend to be primarily motivated by economics:** APSs are often family-owned businesses and most decisions are analyzed on the basis of their financial impact. Some owners are also driven by social and altruistic motives.

- **APS owners operate in a highly competitive environment and face several challenges:** APSs operate in a highly fragmented and competitive environment. They face challenges in timely collection of fees, retaining teachers, and in complying with multiple regulations.

- **Affordable private school owners know that parents generally judge quality of a school on the basis of easily visible factors:** Parents tend to assess ‘quality’ of the school on factors such as 10th standard results, English language skills of the child, or the use of technology in the school.
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<td>8</td>
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</table>
The buying behavior of APS owners can be analyzed using a five-stage framework

- **Stage A: Need recognition**
  - Realizing that the APS needs to invest in an intervention (a good / service) or that a potential solution exists
  - Sometimes separate from the recognition of a problem / challenge, as owners may recognize the problem but not have thought to address it

- **Stage B: Information gathering**
  - Identifying potential solutions and the various providers of the solution
  - Gathering more detailed information around price, functionality, contract terms etc. for each of the identified solutions / providers

- **Stage C: Evaluation**
  - Evaluating the various solutions / providers available against a set of criteria

- **Stage D: Decision making**
  - Selecting a solution / provider

- **Stage E: Post-purchase behavior**
  - Evaluating the impact of the intervention
  - Deciding whether to
    - Continue as per original agreement
    - Alter the agreement
    - Abandon the solution / provider
Need recognition for interventions is primarily driven by external solution providers

<table>
<thead>
<tr>
<th>Manner of need recognition</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
</table>
| **Driven by external provider** | - The most common manner of need recognition  
- Owner may be aware of the problem but would not have considered finding a solution  
- External provider informs owner of the intervention, and the problems it addresses | Teach for India (TFI) representatives contacted the owner to place TFI Fellows at an APS. He was not aware of problems with pedagogy at his school till TFI Fellows joined and students showed greater interest in their classes |
| **Driven by observing other schools** | - The second most common manner  
- Owners look up to ‘elite’ schools and try to emulate them  
- Owners tend to follow other APSs only once a product becomes a ‘hygiene’ factor i.e., something that all schools are implementing | The school attended by the owner’s daughter used text messages to communicate with parents about homework. The owner thought this would help him differentiate his school in the micro-market and contacted the solution provider |
| **Driven internally by school** | - The least common manner  
- Owner proactively tries to address a problem that she is already aware of, by seeking potential solutions and providers | The APS lacked space for play. The APS owner reached out to hardware stores to identify potential flooring solutions that could turn her indoor assembly hall into a safe play area |
External solution providers are the main source of information for APS owners

Sources from which APS owners sought information about solutions

- APS owners rely heavily on information provided by solution providers
  - Rarely seek out multiple solution providers to gather information about alternatives
- APS owners are sometimes part of peer groups (e.g., brought together in NGO-organized conferences) or more formal associations (e.g., state chapter of NISA\(^2\)), through which they obtain information about solutions
  - References from within this peer group are often given considerable weight by the APS owner
- Schools from the same micro-market do not appear to be sharing information

Information sources used by APS owners\(^1\)

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider</td>
<td>93%</td>
</tr>
<tr>
<td>Contacts in other schools</td>
<td>39%</td>
</tr>
<tr>
<td>Newspapers / Journals / Internet</td>
<td>21%</td>
</tr>
<tr>
<td>Industry platforms</td>
<td>18%</td>
</tr>
</tbody>
</table>

1. Responses to an open-ended question with multiple responses possible; 2. National Independent School Alliance
APSs evaluate and select interventions based on some key criteria (1/2)

1. **Affordability:**
   - Ability of the APS to pay for the intervention, given its financial resources
   - Ability of parents to bear the cost, if it were to be passed on to them

2. **Alignment with the owner’s motivations:**
   - **Financial** motivations *(often a primary criterion)*
     - Increase enrolment and/or retention of students
     - Increase fees or introduce new charges
     - Improve the school’s brand
     - Ensure value for money (i.e., ensure price being offered by the provider is competitive)
   - **Non-financial** motivations *(often a secondary criterion)*
     - Improve student outcomes (ensure adequate quality of the intervention)
     - Improve the owner’s standing in the community

“For the majority of APS owners, there has to be a strong business case for selecting an intervention”
APSs evaluate and select interventions based on some key criteria (2/2)

3 Ease of integration into the APS’ operations:
   - Additional training required for teachers
   - Behavior changes required in either teachers or parents
   - Infrastructure changes required in the school, such as changes in classroom layout
   - Monitoring required to ensure implementation

   “A company approached me with a new math pedagogy. I liked their approach but they wanted 3 months to train the teachers. I asked them, ‘who will take classes and who will pay for those teachers?’ They had no answer!’”

4 Clarity of details related to design and implementation of the intervention:
   - Content of the intervention (e.g., will the product cover all aspects of the syllabus?; what do the TLMs look like?)
   - Role of the owner and staff in implementation
   - Role of the provider
   - Process and schedule for rolling-out the intervention
   - After-sales service commitment by the provider

   “I had another teacher training provider come to me as well, but they were not clear about what exactly they were going to do or teach”
The APS owner is often a unilateral decision maker on adopting interventions

<table>
<thead>
<tr>
<th>Need recognition</th>
<th>Information gathering</th>
<th>Evaluation</th>
<th>Post-purchase behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consulted</strong></td>
<td><strong>Decision maker</strong></td>
<td><strong>Informed</strong></td>
<td></td>
</tr>
<tr>
<td>Owner</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td></td>
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<td></td>
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<tr>
<td>Teacher</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent</td>
<td></td>
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</tr>
</tbody>
</table>

**Consulted**
- Owner
- Principal
- Teacher
- Parent

**Decision maker**
- Unilaterally decides on taking up an intervention

**Informed**
- Expected to ensure implementation
- Expected to implement
- May raise concerns in some cases, but owners feel they can manage the concerns if required
APS owners do not systematically assess impact on students or teachers, but track parent perceptions

Owners do not systematically track impact on either students or teachers...

- No consultations with teachers on impact of intervention, unless there are complaints from the teachers
- No targets set for improvements in student outcomes

...but track impact on parent perception

- Parent perception is one of the most important factors that determine the school’s ability to increase revenue
- Impact on parent perception is tracked through three measures
  - Informal feedback from parents
  - Enrolment and retention numbers
  - Ability to raise fees

“I don’t know how the teachers are feeling about the multimedia system – I need to ask them”

“The Abacus math class is a good product. Parents tell me they are very happy with it”

“The company told me the abacus classes will help with mental math - I’m sure it will help in someway”

“I was hoping the karate class would help me reach a strength of 700 students. I discontinued when that didn’t happen”
Quality of after-sales service is a key factor when deciding whether to continue with an intervention

Illustration: Discontinued smart board service

A smart board vendor approached me some 3 years ago and impressed me with the product. I paid INR 4,00,000 (~USD 6,000) for it.

He promised regular content updates and troubleshooting support.

After the first year, their after-sales service became very poor. They took days to answer our calls.

It was not worth the hassle anymore and I stopped using their service last year.

Illustration: Praise for strong after-sales service

I purchased the spoken English program for my Sr. KG, 1st, and 2nd grades some 6 years ago. It was the ideal program.

The company provided handholding and support in implementing the program, including lesson planning and training teachers.

The trainer continued to come regularly to observe the teachers and provide feedback.

The company shut down, but I would have loved to continue with them.
## Timing of decisions to purchase interventions

<table>
<thead>
<tr>
<th>Intervention type</th>
<th>Description</th>
<th>Timing of decision</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Curriculum changes</strong></td>
<td>● An intervention which replaces the text books, on which weekly and daily lessons are based (e.g., an English program that requires existing classes to be replaced)</td>
<td>● 5-6 months prior to start of the academic year</td>
<td>● Schools decide on a publisher and give out orders 5-6 months prior to start of the academic year</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>● School gets sufficient time to plan for the coming year</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>● Publisher gets sufficient time to fulfill the order</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>● Any required teacher training can happen in the 10 days prior to the start of the academic year</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>● Limited training is also possible throughout the year</td>
</tr>
<tr>
<td><strong>Non-curriculum changes</strong></td>
<td>● Smaller interventions which supplement the existing curriculum, rather than replacing it (e.g., a math program that is run twice a week in addition to the existing math classes)</td>
<td>● Ideally 2-3 months prior to start of the academic year</td>
<td></td>
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<td></td>
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<td></td>
<td>● Much greater flexibility to make decisions throughout the year</td>
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</tbody>
</table>
Examples of items that schools have invested in (1/2)

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Expenditure¹</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Smart board</strong></td>
<td>• Classroom(s) fitted with an interactive board and computer</td>
<td>• Quarterly instalments of INR 100,000 (~USD 1,500)² for 5 years (for 13 boards)</td>
<td>• Smart boards are a hygiene factor in most micro-markets, as almost all schools within the fee range tend to have one</td>
</tr>
<tr>
<td></td>
<td>– Used to deliver educational content that maps to the curriculum</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Abacus math class</strong></td>
<td>• Extra math classes, taught using the Abacus method</td>
<td>• Annual cost of INR 400,000 (~USD 6,000)² for 1st-10th grade</td>
<td>• Math skills are valued by parents</td>
</tr>
<tr>
<td></td>
<td>– Intended to improve the students’ ability to perform calculations and do mental math</td>
<td></td>
<td>• Program could help the school differentiate itself in the micro-market</td>
</tr>
<tr>
<td><strong>Building renovation</strong></td>
<td>• New coat of paint</td>
<td>• One-time expense of INR 1.8 million (~USD 28,000)²</td>
<td>• Building quality and level of maintenance is considered by parents as a proxy for quality</td>
</tr>
<tr>
<td></td>
<td>• New flooring</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Plumbing repairs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Electrical works</td>
<td></td>
<td></td>
</tr>
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</table>

1. As mentioned by school owner
2. Assuming USD 1 = INR 65

© FSG | 42
Examples of items that schools have invested in (2/2)

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Expenditure¹</th>
<th>Rationale</th>
</tr>
</thead>
</table>
| SMS alert service         | • Text messaging system to inform parents about daily homework assignments  | • Annual cost of INR 24,000 (~USD 370)² per year for the entire school | • High-end schools provide similar services  
• Parents like the use of technology  
• Parents are keen to know about the child’s school work  
• Teachers do not have to write in each student’s diary individually |
| Refurbishment of ECE classrooms | • Bright paint and wall pictures for ECE classes  
• Rubber mats to replace benches | • One time expense of INR 25,000 (~USD 400)² | • High-end chains setup their ECE classes in this manner |
| Teacher training course   | • 2-year course on classroom management and lesson planning for primary school teachers | • One-time expense of 2,00,000 (~USD 3,000)² for 5 teachers | • Parents value trained teachers  
• Cheaper to train teachers, relative to hiring trained teachers |

¹ As mentioned by school owner; ² Assuming USD 1 = INR 65
Summary: Need recognition in an APS is generally driven externally; the owners make purchase decisions unilaterally

- **Need recognition for an intervention is most commonly driven externally**: Interventions are usually brought to an APS owner by an external party, rather than the owner actively seeking out interventions.

- **Solution providers are the primary source of information about interventions**: APS owners rely heavily on the solution provider, and do not seek out alternative providers or sources of information.

- **APS owners adopt interventions that are affordable, align with their motivations and can be easily integrated into the school**.

- **APS owners unilaterally decide on whether to adopt an intervention**.

- **For APS owners, changes in parent perception are the most important measure of impact**.

- **Interventions that require changes to the curriculum need to be purchased up to 5-6 months prior to the academic year, but there is much greater flexibility with other interventions**: Textbooks on which the curriculum is based are finalized well in advance. However, interventions that do not require a change in textbooks can potentially be introduced anytime during the academic year, although the preference is naturally to avoid changes in the middle of the year.
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</table>
ECE classes are setup in a manner very similar to other classes...

- **Fixed benches and desks** in all KG classes
- More flexible seating arrangements in the Nursery section in roughly a third of schools (but not the KG sections)
  - Some owners believe Nursery aged children require more space
- **Lack of teaching-learning-materials**
- **Drab walls**
- **Hard concrete floors**
...and are cramped for space

Layout of a typical ECE classroom in an APS

Class size: ~30 students

Teacher’s Desk

Storage

Open Area (Covered / Uncovered)

© FSG | 47
The approach to teaching in ECE classes is similar to other classes, and is often not developmentally appropriate...

- **Teacher-directed rote learning**
  - Students intone words, sentences, rhymes and numerals – mimicking the teacher
  - Students write letters or words by copying from the board, or tracing on work books

- Lessons are **repetitive**, with the same material covered several times in the same manner

- **Little time for play** or activities

- Open ended conversation or **questioning is often discouraged**
…but the flexibility in curriculum and pedagogy provides an opportunity for developmentally appropriate ECE

<table>
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<tr>
<th>Curriculum</th>
<th>Pedagogy</th>
<th>Monitoring</th>
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</thead>
<tbody>
<tr>
<td>● There is no regulation stipulating the ECE curriculum to be followed</td>
<td>● Teachers decide how a particular topic should be taught in class, and often have complete autonomy</td>
<td>● There are no in-class observations</td>
</tr>
<tr>
<td>● Topics to be covered in the year are determined by the textbook that is selected</td>
<td>● Teachers rely on previous experience or suggestions from other teachers on how to teach a lesson</td>
<td>● Many schools require teachers to maintain a daily diary of topics covered in class</td>
</tr>
<tr>
<td>● Schools have complete autonomy in selecting textbooks, and can change the selection every year</td>
<td>● Classes have no formal lesson plans</td>
<td>● Teachers are not required to report how they taught the topic</td>
</tr>
</tbody>
</table>

“State board prescribes syllabus for Grade 1 and above. For pre-primary we teach what is in the textbook”

“The Principal gives me term-wise targets and I break them down into number of pages to cover daily. I am free to teach in the manner I think is right”

“After classes every day, I record the topics taught for each subject in a daily diary and submit it to the Principal every Monday”
ECE teachers are often unable or unwilling to spend time on lesson planning

- Teaching classes
  - Assigning homework and writing it in each child’s workbook
  - Checking work (homework / classwork) assigned earlier

- Handling parent queries after school and at Parent-Teacher Meetings
- Planning lessons for the next day
  - Typically spend 5-30 mins prior to class to think about lesson delivery
- Training
  - Most APSs do not provide any in-service training
  - Teachers might receive some informal guidance from the owner, principal / in-charge, or more experienced teachers

- Preparing exams
- Marking exams and preparing report cards
Summary: ECE and primary classes are setup and conducted in a similar manner, although the ECE curriculum is more flexible

- **ECE classes are setup and conducted in a manner very similar to other classes**: There are fixed benches for seating; and a teacher-directed, rote learning approach to teaching.

- **The curriculum and pedagogy for the ECE section are very flexible**: The topics to be covered for the year depend on the textbook chosen by the school; and teachers are given autonomy in how they teach the topic.

- **Teachers spend very little time planning lessons**: Most of the teacher’s time is spent on teaching the class, followed by tasks such as assigning and checking homework, marking attendance and following up on due fees. Teachers typically spend 5-30 minutes planning for the next day’s lessons, and almost no time is devoted to training.
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</table>
The Problem: Children in school in India are not learning

Weak foundation in early years\(^1\)

In grade 1
- 78% can’t read simple three-letter words
- 54% can’t pick 12 pencils from a stack of 20
- 82% can’t complete a simple 4-piece puzzle

Leads to poor learning outcomes in secondary school\(^2\)

In grade 10
- Only 35% students can read at grade 4 level
- Only 32% students can place decimal numbers in increasing order
- Only 24% can calculate area of a circle

Children are exposed to rote memorization techniques in early years and hence struggle to cope with primary education

---

\(^1\) Findings from assessment of 207 children commencing grade 1 in Affordable Private Schools (APSs), conducted by FSG in 2016-17

\(^2\) Findings from assessment of 50,000 students in grades 9 and 10, conducted by Education Initiatives in the states of Gujarat, Maharashtra and Rajasthan in 2013-14
86% of children from urban, low-income families are exposed to pedagogically inappropriate “rote” techniques

1. IRS 2014, The research selected households belonging to socioeconomic classes A3-D1 according to the New Consumer Classification 1-2- FSG research. Percentage of parents of 4 and 5 year olds enrolled in a private educational institution. Assumes that those in non-APS private preprimary classes will transition on to grade one at an APS I 3-1- e.g., the teacher would stand in front of the class and ask children to memorize “A for Apple, B for Bat, C for Cat ...”

2. Low-income families constitute ~70% of urban India

3. APSs use pedagogically inappropriate “rote” teaching techniques
The Solution: Adopting activity based learning in early years can provide the right educational foundation to succeed in life

Why focus on the early years?

Nobel laureate James Heckman highlighted that return on investments in early years are highest compared to remedial programs later

Why focus on activity based learning?

Activity based learning is the right pedagogy in teaching children in the early years and giving them a solid foundation

PIPE aims to replace rote memorization technique with activity based learning in 300,000 APSs in India

Leading to children from low-income families getting a solid foundation and an equal opportunity to succeed in life
FSGs Pre-School Assessment Tool was used to assess 38 PIPE schools and 20 non-PIPE control schools i.e. APSs where no ABL solutions have been introduced across classroom environment, student learning outcomes and engagement of teachers, owners and parents.
Our efforts are supported by

To learn more about our work please visit [www.fsg.org/pipe](http://www.fsg.org/pipe)
Our team* brings together strategic, educational, and operational experience and expertise

<table>
<thead>
<tr>
<th>Team Member</th>
<th>Role</th>
<th>Responsibilities</th>
</tr>
</thead>
</table>
| **Vikram Jain** | Program Lead | - Leads the PIPE program  
- 15 years of strategy, operations and consulting experience  
- Worked with Monitor Inclusive Markets, McKinsey and Deloitte  
- MBA, London Business School |
| **Lakshmi Narayanan G** | Field Team, Bangalore | - 7 years of work experience, with extensive experience in the education space in Bangalore  
- MA-Development, Azim Premji University |
| **Gauri Kirtane** | Quality Team | - Over 10 years of experience in education leadership, with a focus on teaching, learning and curriculum design  
- Most recently, Education Manager for more than 35 centers and 1200 students at the Akanksha Foundation  
- EdD, University of Pennsylvania |
| **Sana Kazi** | Program Team | - EdD, University of Pennsylvania |
| **Sriramprasad Rangarajan** | Partner Team | - 6 years of operations and consulting experience in India and Africa  
- Launched an employability assessment tool that has been commissioned on 30,000+ candidates  
- Worked with HCL, PwC and Athena  
- MSc Operations Research, LSE |

* The team shown here is representative of the PIPE team for 2018-19

**Total team size:** 14

**Roles and responsibilities:**
- **Partner team:** Capacity building of partners, Best practice development
- **Quality team:** Monitoring in schools, Best practice development
- **Program team:** Dissemination and program management
- **Field team:** Monitoring in schools
FSG is a mission driven non-profit (501 c3) focused on Scale Social Impact

We are well known for having pioneered innovative approaches

Catalytic Philanthropy
Philanthropy that considers the big picture

Inclusive Markets
Creating markets that work for everyone

Shared Value
Creating business value and social value

Collective Impact
Organizing around common goals

We use these approaches to help global leaders create impact and promote their effective use

We leverage these approaches to run initiatives that create scale sustainable impact

Early Childhood Education
Low-income housing
100,000 Opportunities Initiative
FSG Inclusive Markets (FSG IM) believes that markets can and should benefit the poor

**We believe** that markets should be part of the portfolio of solutions for social change.

**Our strength** is in understanding how to make inclusive business models work, and how to get them to scale.

**We create impact in various program areas** by:
- **driving new thinking** for the field, and
- **making change happen** on the ground.

We are a “**mission driven**” and **non-profit** unit whose work is entirely public domain.
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NCCS (New Consumer Classification System)

Definition

- NCCS is used to classify households into socio-economic classes
- The classification is based on two variables:
  - Education level of the chief wage earner
  - Number of consumer goods owned by the household from a predefined list of 11 durables
- There are 12 classes in the NCCS ranging from A1 to E3
  - A1 being the most educated class with the most household goods

Background

- NCCS was launched in 2009 as an update to the previously used SEC (Socio-Economic Classification) system
- It was developed by Market Research Society of India (MRSI) and Media Research Users Council (MRUC)

Items included in this list are – (1) electricity connection (2) ceiling fan (3) LPG stove (4) two-wheeler (5) color TV (6) refrigerator (7) washing machine (8) personal computer/laptop (9) car/jeep/van (10) air conditioner (11) agricultural land
Macro data on percentage of Urban households in the country - by NCCS

Source: IRS Data 2014