Business Restructuring of New Oriental Education Technology Group Under the Double Reduction

Hanyue Du[1, *, †], Chenyu Wu[2, †] and Haosheng Yu[3, †]

[1]College of Applied Science and technology, Hainan University, Haikou, China

[2]College of Economics and Trade, Hunan University of Technology and Business, Changsha, China

[3]International Business School Suzhou, Xi'an Jiaotong-Liverpool University, Suzhou, China

*Corresponding author: 20213005830@hainanu.edu.cn

[†]These authors contributed equally.

Abstract. Double Reduction Policy has strongly affected the education industry in China, especially to those mainly rely on the revenue coming from K-12 education. Since the policy prohibits education organizations gaining revenue from academic tutoring including K-12 education. Thus, many education giant companies bankrupted while New Oriental re-emerged through this crisis. The reason behind this phenomenon is worth exploring. Therefore, this study will investigate the case of New Oriental to analyze how they catch up the opportunity in this crisis. This article will mainly focus on two parts that the success of its business restructuring and its attempt to enter the live-streaming selling market. Specifically, Quantitative Analysis is presented to compare the financial data before and after business restructuring. EFE and IFE matrix method are adopted to analyze the external and internal environment of New Oriental. In addition, SWOT analysis is used to weigh the pros and cons of entering the live-streaming selling markets. According to the analysis, threat and opportunity coexist and New oriental make full use of its strengths to re-emerge under Double Reduction Policy. The basic strategy is following the relevant national policies. In addition, this paper also provides some investment suggestions for those are still struggling to survive from the change. These results shed light on research the impact of national policy to the educational industry.

Keywords: Double Reduction Policy; New Oriental; business restructure; live-streaming selling market.

1. Introduction

In order to reduce the burden of students and improve the quality of teaching in the compulsory education stage, Ministry of Education of the People's Republic of China carried out the Double Reduction Policy comprehensively on 24 July 2021. More importantly, it also claimed that all the educational institutions were forbidden to conduct academic curriculum for the purpose of earning profits. Hence, the industry of education and training experienced a huge impact. According to the statistics, the scale of it in Beijing has shrunk 60 percentages since the policy are implemented. Several industry giants were on the verge of bankruptcy, e.g., Wall street English. More seriously, Keywin Education which ranked top ten on the list of educational organizations in Shanghai finally announced bankruptcy due to the incredible debt. However, as the leading enterprise, New Oriental immediately took actions to restructure its business to respond to the policy. With the promotion of policy, they kept on reducing the proportion of prohibited operation, like K12 which is their core business, and sought for other potential directions of transition. Finally, they suspended providing service of after-school academic tutoring for students and set their eyes on the field of non-academic education, like musical or physical training. In addition, college education and business of studying aboard are continuing playing the key role on their operation revenue. Moreover, Minhong Yu, the chairman of New Oriental, who was unsatisfied with circumstance found the business opportunity in live-stream marketing and created the brand named "Oriental Selection" with his team before long. Then, the new brand was regulated by New Oriental Online. Nowadays, the popularity of "Oriental Selection" illustrate that the strategy of New Oriental is far-sighted and significant. To sum up, the success of its enterprise transforming has the referential value to the whole education and training industry. Therefore, this study will discuss about the business restructuring of New Oriental under the background of Double Reduction Policy.

There are not numerous research directly regarding to this topic since the Double Reduction Policy was conducted recently. Therefore, this study refers the research carried by Wang to understand Double Reduction Policy as a whole [1]. Wang [2] and Li [3] separately discussed the financial risk of enterprise restructure which is beneficial to study the potential danger of the action of New Oriental. In addition, Zhao posted the paper that she focused on three main thoughts of transition which might be conducive to those trapped firms [4]. Our study will refer to part of her thoughts and discuss the effect of business restructuring of New Oriental. Moreover, Wang [5], Fen [6] and Chen [7] with his team studied the profit model of New Oriental Online respectively. Their research methods and conclusions have referential meaning to discuss the operation and financial condition of New Oriental Online. Above all, this study refers the structure of report written by Yang and is based on kinds of data and reports, so it is assumed that our last conclusion could be persuading [8].

This paper will apply different methods to analyze the business restructuring of New Oriental under the background of Double Reduction Policy. As for quantitative analysis, ratio analysis method, trend analysis, structural analysis and comparative analysis are implemented. This study has collected amounts of data and found the differences of economic indicators which is compared by before and after reorganization. Finally, we analyze the future development trend. External uncontrolled factors and internal controlled factors are the two crucial elements in the basic controlling model of corporation strategy managements. This method analyses the external and internal environment of the development of New Oriental under the Reduction Policy and dissects this case through weighted analysis. The research carried by Sun which is in regard to utilizing EFE and IFE matrix to analyze the development of a company is instructional to our study [9]. Regarding to SWOT analysis, it comprehensively researches the strengths and weaknesses of the strategy of New Oriental and determines the feasible and effective future tactic. This study refers the research carried by Zhang which is regard to the application of SWOT Analysis in enterprise strategic managements [10].

As the policy introduced, the industry of education and training was in the doldrums, but New Oriental successfully reorganized and rose again. We reckon that this event is interesting and worth lucubrating. This study will analysis the case of business restructuring of New Oriental from multiple angles. Through the research, this research will attempt to make the choice of New Oriental taking a different direction which could be summarized as changing the old track and pioneering the new track traceable. The rest of the paper is organized as follows. The Sec. 2 will introduce the basic information of New Oriental and its business restructuring. Then the Sec. 3 will analysis this case. Followed by it, this research will provide investment suggestions regarding to the transition of the whole industry. Moreover, this study will find the limitation of our research and explore its future development. Finally, a brief summary will be given.

2. Description of the business restructuring case of New Oriental

2.1 Description of New Oriental

New Oriental Education and Technology Group is the Chinese education firm founded by Minhong Yu in 1993. Since then, it has evolved into a large-scale comprehensive educational conglomerate, which provides consumers with the service of after-school tutoring, language training, college education etc. The number of its staff all over the world reached the peak at 13 thousands in 2020. Moreover, New Oriental Group was listed on Top 500 Chinese Brand and ranked 127th which headed the list of education group. However, due to the impact of Double Reduction Policy, the market value of New Oriental shrank appropriately 90% and the scale of employees plunged 85%. The total business revenue fell by 34% year-on-year.

2.2 The motivation of business restructure

Chinese government intends to release the academic pressure of students in compulsory education stage. Thus, after-school academic tutoring is the field that cannot be ignored. Double Reduction Policy is put into practise to regulate the chaos in education market. Business including K-12 education is forced to cease by the government. However, K-12 education is the core business of most public companies as shown in Fig. 1. Thus, the whole education industry faced an influential revolution. All the firms have to adjust the new policy because the past business model is not suitable. This study will take New Oriental Online as the example to prove it. Seen from Fig. 2, it is obvious to observe that New Oriental Online continuously put resources into K-12 education before FY2022, and the business revenue of it increased at the same time. In FY2021, it replaced the status of college education and became the main sources of income. Whereas, this business model existed a problem that actually the gross profit and margin of K-12 education are low compared to college education as summarized in Table 1.

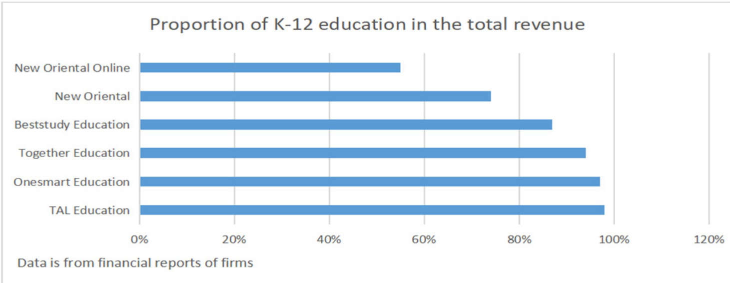

Fig. 1 Proportion of K-12 education in the total revenue

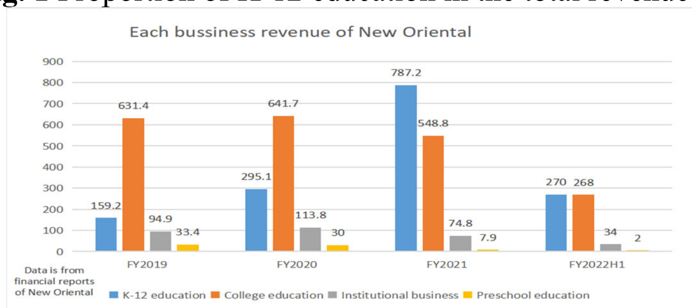

Fig. 2 Each business revenue of New Oriental Online.

Table 1. The comparison of financial data between K-12 and college education

	FY2019	FY2020	FY2021
Revenue of K-12 (millions of RMB)	159.2	295.1	787.2
Gross profit	15.8	-44.9	-25
Gross margin	9.9%	-15.2%	-3.2%
Revenue of college education	631.4	641.7	548.8
Gross profit	414.5	435.7	368.5
Gross margin	65.60%	67.90%	67.10%

Owing to Double Reduction Policy, this problem became more serious because the investment in K-12 education only will reduce gradually. By contrast, the gross profit and margin of college education are stable and high which is worth investing more energy. New Oriental Online also realized this point and decided to restructure business. In FY2022H1, the business revenue of college education has reached 268 million RMB which almost equal to the business revenue of K-12 education. To sum up, the reason why New Oriental decided to restructure its business can be attributed to external policy pressure and internal optimization of business model.

2.3 Enter into new market and Effect

According to the data from research Consult, the market of live-stream reached 2.2 trillion RMB and the CARS achieved 133% from 2019 to 2021, which indicates that the market is full of potential. In order to get out of trouble, Minhong Yu with his team decided to march the field of live-stream marketing and they first appeared in TikTok network studio on 28 December 2021. Then, New Oriental Online kept attempting to transform to adjust the market. Finally, the studio named “Oriental Selection” suddenly attracted abundant attention of audiences ascribed to its unique bilingual marketing on 10 June 2022. The one-day Gross Merchandise Volume reached at nearly 70 million RMB on 18 June 2022 and the number of fans is over 24 million which shows its successful transform. The whole progress is also reflected in the fluctuation of its share price, as depicted in Fig. 3.

Fig. 3 Share price of New Oriental.

Since the Double Reduction Policy being carried out, the share price of New Oriental moderately dwindled and reached the bottom around April. Then, it rocketed at the beginning of June when “Oriental Selection” accidentally became welcomed among the public. This phenomena shows that more investors are confident about New Oriental due to the success of “Oriental Selection” and also in some extent proved that this strategy is effective and worth referring to.

3. Case study of business restructuring of New Oriental

3.1 Utilize EFE matrix to analysis external environment of New Oriental

According to the Table 2, the total score of EFE matrix is 2.52, higher than average score 2.5. It illustrates that New Oriental is able to respond to external chance and threat. Though Double Reduction Policy inflicted serious damage on educational organizations, the weighted score of chance is higher than threat which means that the industry began to recover and educational companies can seek out more potential valuable opportunities. In addition, the current development of the education market is seriously homogeneous. Many educational institutions have no clear market positioning and lack of product differentiation advantages, resulting in their own lack of competitiveness. However, 2, 4, 5 and 6 of the opportunities indicate that the current education market demand still has broad prospects.

Table 2. EFE matrix.

	Key external factor	Weight	Score	Weighted score
	1.High threshold of education industry	0.1	3	0.3
	2.Spiritual need of customers increase	0.11	4	0.44
	3.Several investment directions of business restructuring	0.06	3	0.18
Chance	4.Disposable income of residents increase	0.09	4	0.36
	5.Market demand increase	0.08	3	0.24
	6.Knowledge payment is gradually accepted	0.08	3	0.24
	7.Contactless economy edges up	0.07	3	0.21
	sum	0.59		1.97
	1.Double reduction Policy	0.15	1	0.15
	2.Competitive market	0.11	1	0.11
Threat	3.Homogenization phenomenon is serious	0.07	2	0.14
	4.Leading firms take up too much market shares	0.08	2	0.16
	sum	0.41		0.55
	Total	1		2.52

3.2 Utilize IFE matrix to analysis internal environment of New Oriental

Seen from the IFE matrix in Table 3, the total weighed score of New Oriental is 2.89 shows that internal advantages of the company is higher than the average level. The advantage of New Oriental is mainly reflected on its comprehensive knowledge of educational industry which is convenient for it to develop business in different directions except K-12 education, such as overseas studying service and adult education service. Moreover, due to its past capital accumulation, New Oriental can immediately take action to respond to the policy, but its normal operation might not be guaranteed if new business cannot create revenue within a certain period of time. The rupture of cash flow might become the hidden problem during the transformation.

Table 3. IFE matrix

	Key internal factor	Weight	Score	Weighted score
Advantages	1.Familiar with education industry	0.12	4	0.48
	2.Possess with capital base	0.12	4	0.48
	3.Powerful managements	0.08	4	0.32
	4.Possess with recognition and trust	0.09	4	0.36
	5.Company is cohesive	0.06	3	0.18
	6.Marketing ability is strong	0.06	3	0.18
	7.Staff are well-mannered	0.07	4	0.28
	8.Diversity management	0.07	3	0.21
	Sum	0.67		2.49
Disadvantages	1.Main revenue business is impeded	0.15	1	0.15
	2.Inexperienced with conducting new business	0.11	1	0.11
	3.Operate at a loss continuously	0.07	2	0.14
	Sum	0.33		0.4
	Total	1		2.89

Table 4. SWOT analysis.

Internal / External	Advantages 1.Talents 2.Brand trust 3.Brand popularity 4.Capital	Disadvantages 1.Inexperienced 2.Defective supply chain
Opportunity 1.Demand of online shopping increase during the epidemic 2.High traffic on short video platforms 3.Spiritual need of customers increase 4.Low risk and controlled cost 5.Shortage of celebrities on short video platforms	SO strategy Expand the scale, seize platform traffic and develop popular anchors. Find the position and exert advantages. Build the brand and attract customers. Enlarge the market and develop resources.	WO strategy Establish perfect. mechanism to introduce e-commerce talents. Improve supply chains.
Threat 1.Competitive market 2.Difficult to transport agricultural products 3.Quality of products cannot be guaranteed steadily 4.Heat is hard to maintain	ST strategy Differ itself from others through unique brand and talents advantages. Improve competitiveness and viscosity of customers. Strive to develop self-support products and confront quality problems actively. Keep innovating and explore new methods of live-streaming.	WT strategy Aware of cost and fierce competition.

3.3 SWOT analysis of New Oriental entering the live-streaming market

Though comprehensive analysis in Table. 4, it is a desirable choice for New Oriental to enter live-streaming market. Apparently, advantages and opportunities are more than disadvantages and threats. This study suggests that New Oriental can mainly carry out the ST strategy and take WO strategy as a supplement. Pay full attention to the external threats and mainly focus on utilizing its unique brand

and talents advantages. Most importantly, the firm is supposed to possess with long-term vision and perseverance.

3.4 Financial effect analysis of New Oriental

On account of the powerful and strict regulation of Double reduction policy in academic business like K9, New Oriental officially ended the academic training on 1 January 2022. As of 31 May 2022, the firm has closed 925 schools and learning centers and approximately half of staff were laid off. The remain training centers and staff are mainly responsible for quality education training stage. According to the financial data displayed in Table 5, the company basically finished the mission of closing stores and decreasing workforce in the first and second quarters of FY2022. Moreover, the total one-off expense of terminating lease and reducing the staff is about 1.2 billion dollars.

Table 5. Financial data of New Oriental.

Millions of dollars	3Q21	4Q21	1H22	3Q22	4Q22
Revenue	1190	1212	1967	614	524
Gross profit	651	633	833	241	276
Marketing expense	156	194	277	94	96
Management expense	393	541	1292	289	286
Operating profit	101	(102)	(763)	(141)	(106)
Reported net profit	151	(45)	(876)	(122)	(189)
Non-GAAP Operating profit	116	(82)	(661)	(111)	(77)
Non-GAAP net profit	163	(28)	(790)	(96)	(160)
Non-GAAP EPS	0.96	(0.17)	(4.69)	(0.56)	(0.94)
Gross margin	54.7%	52.2%	42.4%	39.3%	52.7%
Operating margin	8.5%	-8.4%	-37.4%	-23.0%	-20.2%
Net profit margin	12.7%	-3.8%	-44.5%	-19.9%	-36.1%
Non-GAAP operating margin	9.7%	-6.8%	-33.6%	-18.1%	-14.7%
Non-GAAP net profit margin	13.7%	-2.3%	-40.2%	-15.6%	-30.6%
Operating cash flow	23	304	(1075)	(235)	29
Cash	1570	1612	1027	1467	1149
Fixed deposit	1148	1214	1146	915	1140
Current investment	3361	3435	2632	2028	1902
Total liquidity	6078	6261	4805	4410	4191

In addition, attri buted to the reorganization of New Oriental, its income indicators, profitability and revenue quality have appeared to deteriorate in different degrees since Q4 in FY2021. The revenue of firm in the Q3 of FY2022 is 614 million dollars, down 48% year on year. However, in the Q4 of FY2022, the operating loss decreased compared with Q3 and gross profit margin also increased by 13.4%. One reason behind it is New Oriental has gradually stripped the business of academic tutoring. Another reason is that the revenues of other businesses are continuously increasing quarter on quarter. Original overseas study business increased by 6% and overseas consulting business increased by 10%. At the same time, the income of domestic examination increased by 30%. In the aspect of new business, benefiting from the application of "Online-merge-offline system" (OMO), New Oriental can gain sustainable profit during the pandemic. Oriental Selection has achieved prominent progress through selling agricultural products on the e-commerce platform and gained millions of subscribes and members. According to the financial report of New Oriental Online (01797.HK), the live-streaming business has achieved the revenue of 24.6 million yuan and gross margin reached 37.8%. Combined with the steady balance sheet of New Oriental, business restructure has achieved success in some extent.

4. Suggestions

The promulgation of Double Reduction Policy thumped the educational organizations which are mainly gaining revenue through K-12 education business. According to the analysis above, this study provide investors with suggestion as follows. To those small education organizations which are in shortage of enough reserve capital and brand effect, they can search for other tracks (e.g., overseas education) to invest on the basis of their own features and advantages. Moreover, their education service basis in K-12 education is not entirely useless, instead the talents, management models and other things inherited from K-12 education are crucial during the transformation and in future development. In addition, the market of education might not shrink because the fierce competition in the whole society. Not only students need to improve, but also adults are required to equip with more skills. After transforming, the survived firms are supposed to re-emerge and small organizations can catch up this opportunity. No matter what educational institutions choose, they should first upgrade themselves to resist the threat of the external environment. In the face of the serious homogenization of the current education market development, educational institutions should clarify their market positioning and establish a differentiated competition strategy. Constantly innovate, develop in multiple ways, create differentiated marketing strategies and differentiated services, so as to improve their competitiveness. Now that large organizations win by quantity, small organizations should exchange marketing strategy and win by quality.

To those big education firms which are similar with New Oriental, possessing with enough capital and brand popularity beside the options small companies select, they can consider opening up a new track and investing hot business. Since they usually are the focus of people, it create the possibility of gaining revenue through new business. Moreover, they have enough capital to get through the crisis of previous investment loss, then they can realize earning profits in the new market. Nevertheless, being inexperienced in new business is a common problem to all the transforming organizations. Thus, they are supposed to make full preparation before opening new business including choosing the appropriate trade, weighing the advantages and disadvantages, searching for professional talents etc.

5. Limitations & Prospects

It should be noted that this study also exists some limitations. To be specific, the attempt of entering live-streaming market is risky because nobody can guarantee the relevant policy will not change in the future and whether government will prohibit such actions. In addition, the success of transformation of New Oriental is incidental in some extent because all the factors are changing in the dynamic market. It is difficult to totally duplicate its success easily. Therefore, the suggestions of this study are instant and merely serve as the recommendations. Moreover, as the sample data of this study is not large enough, there are still subjective ideas of the author to a certain extent. The improvement of consumers' spiritual demand and disposable income, the education market is gradually recovering. It is believed that there will be more successful cases of transformation of educational institutions soon. It will have more data for reference, and the business restructuring direction, methods and investment suggestions of educational institutions will be more specific.

6. Conclusion

In summary, it is the prerequisite for the successful business restructuring of China's educational institutions. This study analyzes the external environment of New Oriental under the double reduction policy with EFE matrix, and concludes that New Oriental can respond to external opportunities and threats. With the improvement of consumers' spiritual demand and disposable income, the education market is gradually recovering. However, at present, there is a phenomenon of homogenization in the development of the educational institutions market. When the educational institutions conduct business restructuring, it is necessary for them to continuously innovate, develop in multiple ways, define market positioning and establish differentiated competition strategies in order to improve their competitiveness. We have comprehensively analyzed the current internal environment of New Oriental by IFE matrix and the quantitative analysis based on New Oriental financial report and other date. Its certain capital reserves provide a great guarantee for its business restructuring. Its certain brand effect and excellent talent reserve are also its great advantages. On this basis, this study uses the SWOT analysis to analyze the advantages and disadvantages of the internal and external environment for New Oriental to choose the live-streaming selling. According to the analysis, it can mainly carry out the ST strategy and take WO strategy as a supplement. It is necessary to define its own development direction and absorb professional talents. Besides, it can make full use of its own talents and brand advantages to improve its differentiation, and increase the research and development of self-supporting products to form a production line in order to create greater revenue and enable the company to develop in the long term. Therefore, when carrying out business restructuring, enterprises should combine the advantages and disadvantages of internal and external environment, make good industry selection, maximize their own advantages, form differentiation, and achieve sustainable development. Nevertheless, the research conclusions are instant and merely serve as the recommendations because the market is mercurial and national policy might change. In the future, more education groups are expected to transformed successfully. With more data for reference, the research and suggestions could be more specific and convincing. Overall, these results offer a guideline for education organizations to survive from the change and clarification under the impact of national policy on the educational industry.

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