

The Impact of the Covid-19 Epidemic and “Double-Reduction” Policy on Corporate Transformation – A Case Study on New Oriental

Zheng Sun*

Department of Accounting, Changchun University of Finance and Economics, Zhengzhou, Henan, 103122, China

*Corresponding author: 101267@yzpc.edu.cn

Abstract. From the outbreak of the COVID-19 epidemic in 2020 to the current Double-Reduction policy, it has a negative impact on the most companies. These corporates have undergone transformation, especially in the education and training industry. This paper analyzes how New Oriental transformation can be successful by analysing stock price. The epidemic and the Double-Reduction policy caused the stock of New Oriental to fall. However, this study finds that New Oriental has undergone digital transformation and strategic transformation. It launched the Online Merge Offline (OMO) model and established Oriental Selection, which lead to a rise in the stock price of New Oriental. According to the study, there are a couple of suggestions. The first suggestion is that companies should adapt to the development of society. The second suggestion is that companies should innovate in the way of transformation. There are similar industries learning from New Oriental's strategy in the company's transformation.

Keywords: The COVID-19 epidemic; Double-Reduction policy; New Oriental; corporate transformation.

1. Introduction

From January 2020, the COVID-19 epidemic situation broke out. The education industry has been serious affected. All of students only selected to study in home, which means that students just studied at the online. In the next year, China introduced a Double-Reduction policy, in order to reduce the burden of extracurricular tutoring students. Therefore, the industry face a huge challenge. Most education companies will choose strategic transformation or digital transformation, in order to continue to survive. Corporate transformation is the overall transformation of the company's long-term management direction, operation mode, and its corresponding organization ways and resource allocation methods. At the same time, it needs efforts of management and foresight [1]. The company chooses transformation strategies, which needs to recover goals, adapt to social development, and have competitive advantages [1]. Meanwhile, it needs to spend a lot of time on find suitable transformation strategies. According to a survey conducted by Blumenthal and Haspeslagh, the transformations have three types, which is improving operations, strategic transformation and corporate self-renewal differently. Digital transformation is the use of digital technologies to transform every aspect of an organization's activities, processes, business models, and workforce capabilities [2]. With the development of technology, most enterprises have undergone digital transformation, especially traditional enterprises in China, such as Huawei, Wanda, and so on. Strategic transformation means that a company makes some changes in its operating strategy and future development in order to find a better development path.

The purpose of this paper to take New Oriental as a case to analyze how it has successfully transformed. The paper is structured as follows. The paper is analyzed in the context of the epidemic and the Double-Reduction policy. The second section presents an introduction of the New Oriental, which introduce its development process and problems encountered. The third section is to analyze the impact and transformation strategies of the epidemic and the Double-Reduction policy through stock prices and yields. Followed by a comparison in transformation strategies between TAL and New Oriental. The final section gives suggestions about corporate transformation.

2. Case Study on New Oriental

2.1 Background

New Oriental is committed to cultivating students' abilities and helping them in their study or life. This company primary services are language training, overseas student application, and survival skills and so on. In 1993, New Oriental was formally established and developed rapidly. It has become the most recognized brand in the Chinese private education sector. New Oriental is the first education company listed in Hong Kong.

In 1993, most people do not believe in educational institutions, that people are more likely to rely on school teachers. In the following years, New Oriental has been recognized by most people through its own efforts. In 2000, New Oriental established some branches in Shanghai and Guangzhou. At the same time, the company established long-distance teaching. In the next few years, New Oriental was officially listed in New York. After that, New Oriental invested 200,000 RMB to build the first New Oriental Hope Primary School in Tongjiazhuang Town, Heyang County, Shaanxi Province. It established school in Shenzhen, Chongqing, Shenyang, and Chengdu in 2003. New Oriental implemented some professional works, in particular businesses related to studying abroad in 2004. At the same time, it established a new brand of "Bubble POP" children's English and officially began to enter into children's English education field. In the next few years, New Oriental established branch campuses in many cities such as Zhengzhou, Shijiazhuang, Xiamen and so on.

In the Wenchuan earthquake in 2008, it donated 15 million yuan, which enhanced New Oriental's reputation. It is clear that it started to expand its business in second and third-tier cities in 2015. Meanwhile, it has created a public welfare fund to help more students in Less developed regions get a better education. In 2016, New Oriental has set up branch campuses in more places, which has better advantages for the development of kindergarten through twelfth grade (K-12) education. For example, in 2017, The K-12 education business maintained its momentum of rapid growth, with revenue up to about 28% and enrollment up to about 46% year-over-year. Among them, about 23% year-on-year growth in after-school education revenue for middle school general subjects, and a year-on-year growth of about 39% in the new version of Bubble Children's Education. In the next two years, New Oriental established many branch campuses in less developed cities such as Xinxiang, Hebei and so on.

However, in 2020, with the influence of the epidemic, some industries what is education and training was facing the pressure of survival. Many companies are facing bankruptcy such as Jiangsu Rubber Band Art Training Co., Ltd and some small-scale training enterprises [3]. With the rapid development of the Internet and big data, most education and training companies had decided to change Mode of teaching, which is offline teaching to become online teaching. In 2021, most of New Oriental's businesses, such as K-12 education, will be suspended due to China's Double-Reduction policy. At the same time, according to the Double-Reduction policy, New Oriental decided to carry out strategic transformation. Some successfully transformed enterprises took advantage of the "happy accidents" [4]. For New Oriental, it has undergone strategic transformation and digital transformation. It took advantage of the changes in the general environment to carry out reforms.

2.2 Analysis

2.2.1 The impact of the Covid-19 pandemic

With the Covid-19 epidemic, all education and training companies have to stop office teaching. This means that these companies had to convert offline classes to online classes. New Oriental suspended all offline courses. New Oriental would refund those students who were unwilling to switch from offline to online teaching. In this way, New Oriental would face enormous pressure in the expenditure. In addition, online teaching requires good internet quality, which was a sever problems for students who are willing to be taught online. Furthermore, in the post-pandemic period, for New Oriental, it is important to combine online and offline teaching. Moreover, the number of

students were difficult to concentrate during the online studying. The most important factor is that the majority of students are lack of self-control [3].

New Oriental underwent a strategic transformation to solve these problems. First, it actively responded to the country's call to suspend offline classes. Meanwhile, it gave refunds to students who do not accept online classes. While this approach increased spending and lost some customers, the act of refunding the fees bolstered the company's reputation. New Oriental donated 20 million yuan to the Hubei Provincial Red Cross Society for the prevention and control of the COVID-19 epidemic in Wuhan and Hubei Province, including purchasing masks, goggles, ventilators and other emergency supplies to provide support and assistance to front-line medical staff¹. At the same time, it is conducive to better development in the future. In addition, New Oriental has implemented the Online Merge Offline (OMO) model. This model allows a better combination of online and offline teaching. It brings more revenue to the company.

The stock prices have synchronicity, which means that it can be very intuitive to find out the operation of the company [5]. According the Figure 1, stock prices was about \$123 in December 2019. In next few months, this figure experienced a slight increase about to \$140 in February 2020. Due to the outbreak of the epidemic in February 2020, the government notified the postponement of the start of all schools and suspended all offline teaching activities. The stock prices of New Oriental had a significant drop about to \$108 in April 2020. However, the company did some activities like donation, which promote fame. According to the stock price, these strategies were successful for New Oriental. This figure showed a considerable increase about to \$180 in November 2020.



Fig. 1 Stock Prices of New Oriental between December 2019 and December 2020

New Oriental's fiscal year is from July 1 to June 30 of the following year. It is the outbreak time period of the epidemic between Quarter 3 in 2020 and Quarter 1 in 2021. According to the Figure 2, the net income was \$1.07bn in the Quarter 1 in 2020. It is noteworthy that the company is still profitable, although the epidemic has affected the company's earnings. In addition, the year-on-year growth was 24.6% Quarter 1 in 2020. The percentage of yearly growth experienced a slight climb to 31.5% Quarter 2 in 2020. However, there was a significant drop in percentage of growth by 39.5% between Quarter 2 in 2020 and Quarter 3 in 2021. This trend proved that the epidemic had a serious impact on the company. However, New Oriental has carried out a strategic transformation. It has established the OMO model, which brings a lot of benefits to the company. This figure increased considerably to 29% from Quarter 1 in 2021 to Quarter 3 in 2021.

¹ Source of information: <http://www.neworiental.org/profile/course.html>

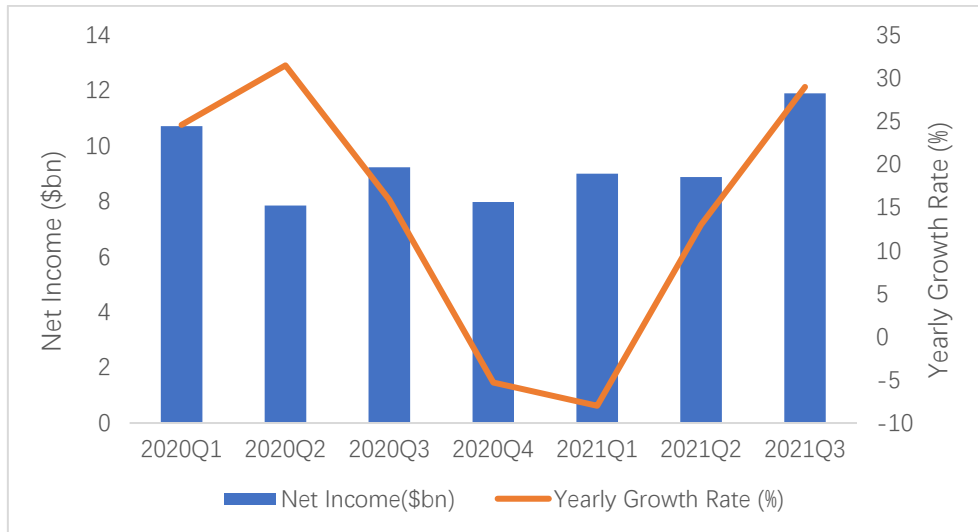


Fig. 2 New Oriental 2020Q1-2021Q3 Net Income and Yearly Growth Rate

2.2.2 The impact of “Double-Reduction” policy

Chinese government introduced Double-Reduction policy in July 2021. New Oriental's main source of income is K-12 education. However, the Double-Reduction policy has suspended subject training in all education and training industries. This policy forced New Oriental face the problem of survival. The first problem is cash flow shortage. The Double-Reduction policy caused investors to withdraw and a large number of teachers to resign [6]. At the same time, the company wants to refund the fees to customers who have already paid for academic education. In addition, in the Double-Reduction policy, it is very important for New Oriental to find a suitable development path for sustainable development.

According to the Figure 3, in March 2021, the stock prices was \$186. However, the stock prices fell significantly to \$20.6 from March 2021 to December 2021. Due to the double-reduction policy, a large number of investors chose to sell stocks, which led to a rapid decline in stocks. According to the chart, there was a sharp drop to \$19.4 in July 2021. New Oriental stock price in US stock market fell 70.72% in August 2021 [6]. This trend proves that the Double-Reduction policy has brought a lot of losses to New Oriental.

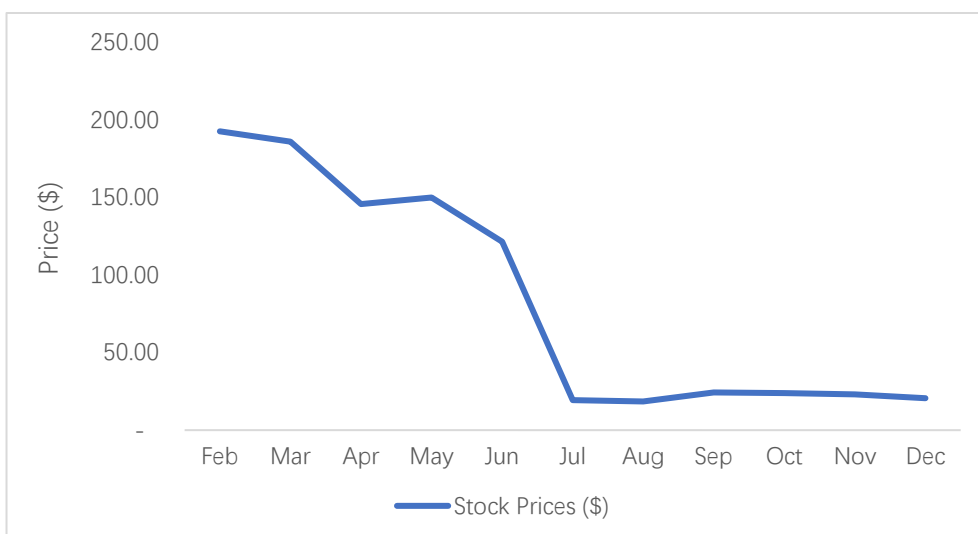


Fig. 3 New Oriental's stock price from February 2021 to December 2021

New Oriental has carried out strategic transformation and digital transformation. New Oriental is gradually transforming into quality curriculum education, which means that it pays more attention to takes improving the quality of the people as the fundamental purpose and promotes the all-round

development of students [7]. First, in order to reduce costs, New Oriental has taken measures to lay off staff. At the same time, New Oriental announced that it would be willing to hire them again when the company resumed operations. In addition, live streaming is very popular. It established Oriental Audition in December 2021. At the same time, New Oriental still pays attention to the education industry and has not completely abandoned its original business. The company chooses bilingual live streaming, which is in both Chinese and English. This way of bringing goods has attracted many parents of students, not only increased income, but also did not deviate from the company's positioning strategy.

Figure 4 below shows that the stock prices was \$20.6 in December 2021. After that, the company need to take a long time to transform and the public to accept it. this figure experienced slight drop to \$9.75 in April 2022. It is noteworthy that there was a marked rise in the stock prices to \$28.18 in August 2022. The stock's price rise proves that their transformation strategy is successful, even though New Oriental has not returned to its previous market value.



Fig. 4 New Oriental's stock price form December 2021 to September 2022

2.2.3 Comparison with other firms in the education industry

TAL is another education and training company in China. Before the Double-Reduction policy, its core business was also K-12 education, including Xueersi Literacy, Xueersi Online School, Xueersi Intelligence, Bixin, American School, Xueersi International, Xueersi Intelligent Content, Xueersi College Students, Mom Help and other brands². In addition, the Double-Reduction policy has also had a serious impact on TAL. TAL's stock price fell by 75.39% on the US stock market [6]. After that, it underwent a strategic transformation. All attention has been paid to the overseas training professional work and after-school services market [7]. After-school services is defined as arranging students do some extracurricular activities, such as watching children's movies, watching exhibition clubs or popular science activities.

Although this transition has stabilized the company's stock price, it has not solved the underlying problem. For example, there are many companies in the overseas study training industry, such as Huanqiu, Qide and so on. This business is very competitive. However, TAL does not have a competitive advantage. In contrast, for New Oriental, bilingual live streaming is a new type of transformation, and as time goes by, most of them begin to recognize this way of doing business, which becomes a competitive advantage. It can attract students and parents to buy some commodities, and it is not used by other education and training companies.

² Source of information: <http://www.100tal.com/about.html>

3. Suggestion

There are two suggestions about how to transform successfully. The first suggestion is that the company should adjust strategies according to changes in the general environment. It means that the development of the company should be connected with the society. For example, in recent years, with the continuous development of big data, live streaming has become very popular [8]. New Oriental created Oriental Selection on the Tik Tok platform. It sells agricultural products, books and explaining some knowledge in the live broadcast. This approach attracts many parents and children. In addition, With the improvement of people's living standards, people pay more attention to health and environmental protection. Coca-Cola company launches sugar-free beverages as people become more health conscious [9]. This transformation strategy has brought many benefits to Coca-Cola, promoting the development of the beverage industry.

Another suggestion is that the company should innovate, which means that it should find areas that other companies have not covered and become your own competitiveness. In other word, when companies encounter some challenges, these companies should look for a new way of transformation that suits them, instead of sticking to the rules. For example, with the epidemic and the Double-Reduction policy, transformation of digitization is very important. It is worth noting that most enterprises have undergone data transformation and strategic transformation, especially in the education industry. According to the previous analysis of New Oriental and TAL, New Oriental conducts bilingual live broadcasts to promote the development of enterprises, because this live broadcast method has not appeared before. This approach not only increases the company's stock price but also enhances the company's reputation.

It is worth noting that the above suggestions analyzed under the epidemic and the Double-Reduction policy. However, there are other situations where transformational strategy innovation is applicable. For example, with the development of science and technology, the society has entered the digital age, and most enterprises have entered the digital transformation in order to obtain sustainable competitive advantages. The first to start the transformation are the manufacturing companies [10]. This approach not only increases revenue but also reduces costs by using a variety of data to discover new manufacturing methods. Over time, with so many businesses undergoing digital transformation, companies need to innovate if they want to continue to thrive. For example, Huawei established 5G technology, bringing the world into the 5G era.

4. Conclusion

In recent years, under the influence of the epidemic and the Double-Reduction policy, most education and training industries have faced huge challenges. Therefore, most education and training enterprises have undergone transformation. However, the company have not successfully transformed. On the contrary, the transformation of New Oriental was successful. Under the influence of the epidemic, New Oriental proposed a refund policy and OMO model for students. While yields have taken a hit, corporate earnings have also risen steadily. In addition, under the Double-Reduction policy, due to the suspension of K-12 education, the revenue of New Oriental dropped significantly. It launched the Oriental Selection. Through the analysis of stock prices, the transformation was a success.

There are two suggestions. The first suggestion is that the company transformation should be consistent with the social context. The second suggestion is that the company should innovate as they transform. In this paper, it is only mentioned that the company transformation should innovate in other contexts, but it does not mention whether it is applicable in other industries. Therefore, it is worth exploring in the future whether these strategies can be applied into different social contexts and industries.

References

- [1] Blumenthal, B., & Haspeslagh, P. (1994). Toward a definition of corporate transformation. *MIT Sloan Management Review*, 35(3), 101–106. <https://doi.org/10.1093/rfs/7.1.215>
- [2] Demirkan, H., Spohrer, J. C., & Welser, J. J. (2016). Digital innovation and strategic transformation. *IT Professional*, 18(6), 14–18. <https://doi.org/10.1109/MITP.2016.115>
- [3] Han, F. X. (2020). The Transformation and Development of the Education and Training Industry in the Context of New Coronavirus Pneumonia Pandemic Prevention and Control. *Journal of Harbin University*, 41(10), 135–137. <https://doi.org/10.3969/j.issn.1004-5856.2020.10.032>
- [4] Johnson, G., Yip, G. S., & Hensmans, M. (2012). Achieving successful strategic transformation. *MIT Sloan Management Review*, 53(3), 25–32.
- [5] Chan, K., Hameed, A., & Kang, W. (2013). Stock price synchronicity and liquidity. *Journal of Financial Markets*, 16(3), 414–438. <https://doi.org/10.1016/j.finmar.2012.09.007>
- [6] Lin, L. (2022, July). The Impact of Double-Reduction Policy on K12 Education and Training Enterprises: Case Studies of New Oriental and Tomorrow Advancing Life. In *2022 2nd International Conference on Enterprise Management and Economic Development (ICEMED 2022)* (pp. 1281–1286). Atlantis Press.
- [7] Xu, L. P., & Feng, M. H. (2021). The development opportunity and prospect of educational publishing under the policy of "Double-Reduction". *View on Publishing*, (20), 24–27. <http://dx.chinadoi.cn/10.16491/j.cnki.cn45-1216/g2.2021.20.006>
- [8] Haigang, W. (2022). Post-epidemic era Reflections on teachers' cross-border e-commerce "live teaching". *International Journal of Management and Education in Human Development*, 2(2), 465–469. <https://ijmehd.com/index.php/ijmehd/article/view/23>
- [9] Chua, J. Y., Kee, D. M. H., Alhamlan, H. A., Lim, P. Y., Lim, Q. Y., Lim, X. Y., & Singh, N. (2020). Challenges and solutions: A case study of Coca-Cola company. *Journal of the Community Development in Asia (JCDA)*, 3(2), 43–54. <https://doi.org/10.32535/jcda.v3i2.810>
- [10] Wen, H. W., Zhong, Q. M., & Lee, C. C. (2022). Digitalization, competition strategy and corporate innovation: Evidence from Chinese manufacturing listed companies. *International Review of Financial Analysis*, 82, 102166. <https://doi.org/10.1016/j.irfa.2022.102166>