

Analysis on the Strategic Transformation Path of Education and Training Enterprises under the “Double Reduction” Policy: A Case Study of New Oriental Education & Technology Group

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Abstract: Under the "double reduction" policy, taking New Oriental Education & Technology Group as the research object, this paper analyses the path of their strategic transformation and proposes implementation suggestions and guarantee measures for the transformation and development of the education and training industry. As a leading enterprise in the domestic education and training field, New Oriental Education & Technology Group has overcome the adverse effects of the "double reduction", such as a significant decrease in revenue, employee turnover, and a decrease in teaching points. It has gradually emerged from the pain period and entered a new stage of development by focusing on quality education, overseas exams and consulting, adult education and college student exams, e-commerce live streaming, and cultural tourism business through multiple channels.

Keywords: "Double reduction" policy, Education and training institutions, Strategic transformation

1. Introduction

In July 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council issued the "Opinions on Further Reducing the Homework Burden and Extracurricular Training Burden of Students in Compulsory Education", which clearly pointed out the need to further reduce the homework burden and extracurricular training burden of students in compulsory education (referred to as "double reduction"), and strictly regulate the training behavior of extracurricular training institutions in K-9 (primary school grade one to junior high school grade three) stage. The main measures include: unifying the registration of subject training institutions as non-profit organizations in the K-9 stage, and prohibiting the capitalization operation of subject training institutions; It is strictly prohibited to exceed the standard for advanced training, and off campus training institutions are not allowed to occupy statutory holidays, rest days, and winter and summer vacations to organize subject training; Restrict advertising for off campus training; Supervise off campus training fees. The supervision and governance of various extracurricular training enterprises by the state have entered a new process, and the compulsory education environment in China has thus ushered in significant reforms.

The purpose of the "double reduction" policy from a macro perspective is for the long-term development of China's education industry. When capital enters the education industry, it will cause education to lose its fairness and balance^[1]. Education is the foundation and cornerstone of a country. Therefore, the ultimate goal of education and training institutions should be closer to "educating and educating people". From a micro perspective, the implementation of "double reduction" has significantly reduced the pressure on students and is beneficial to their mental health^[2]. Therefore, training institutions should focus their future development direction on quality education.

Regardless of the transformation path chosen by educational and training institutions, they ultimately need to return to the essence of education^[3]. The essence of education lies in its long-term and gradual nature. If the capital attribute surpasses the education attribute, the industry will face significant adjustments and reshuffles^[4]. Education and training institutions should return to their original position, complement school education, and carry out courses such as music, sports, beauty, music, chess, calligraphy, and painting. They cannot replace the subject education of schools, ensuring that schools are the main battlefield of education, building a good educational environment, and promoting the

comprehensive and healthy development of students^[5].

The "double reduction" policy has a rich and clear amount of information, which has had a huge impact on subject training enterprises. In addition, with strong implementation efforts in various regions, many education and training enterprises mainly focused on compulsory education subject training have been greatly affected in terms of revenue ability in a short period of time. They are facing situations such as refund disputes, employee and student turnover, and are gradually falling into closed doors and business difficulties. Therefore, the transformation of the education and training institution industry has become an inevitable trend, and major practitioners are actively exploring new breakthroughs and development opportunities, striving to find a new path of harmonious coexistence between social and economic benefits.

2. Case Analysis of New Oriental's Strategic Transformation Under the "Double Reduction" Policy

2.1 Overview of New Oriental Education & Technology Group

As a leading enterprise in the field of education and training in China, New Oriental Education & Technology Group (hereinafter referred to as "New Oriental") has been deeply involved in the education industry for thirty years and has successfully created a comprehensive national education and training brand. It is the most comprehensive private education service provider in China. New Oriental was founded in 1993, formerly known as Beijing New Oriental School. It gradually expanded from the initial TOEFL preparation to multiple business sectors such as subject training, quality education, international education, adult education, smart education, e-commerce live streaming, etc. It has developed from an offline model to an "online & offline" model, with locations in more than 60 cities including Beijing, Shanghai, Guangzhou, and Wuhan. In September 2006, New Oriental Education Technology Group successfully went public on the New York Stock Exchange in the United States. In November 2020, it successfully went public again on the Hong Kong Stock Exchange. In the same year, it became the only education company in China to be awarded the "Top 50 Most Valuable Business Service Brands" by Brand Finance globally.

2.2 The Impact of the "Double Reduction" Policy on New Oriental

As a leading enterprise in K12 academic tutoring institutions, New Oriental is greatly affected by the "double reduction" policy. On the eve of the policy, Chinese education stocks plummeted in the global capital market, with New Oriental listed on NASDAQ falling 54.22% and New Oriental Online falling 28%. In addition, New Oriental's revenue has also been severely affected. According to the quarterly performance on New Oriental's official website, in the 2019 fiscal year, New Oriental's K-12 subject training business accounted for 64% of its revenue, which is the core source of revenue. In the fiscal years 2020 to 2021, revenue related to K9 subject training accounted for approximately 50% -60% of its total revenue. After the implementation of the "double reduction" policy, New Oriental ceased its K9 subject training business around November 2021, resulting in a net loss of over 5 billion yuan in six months. As of the beginning of 2022, it had incurred nearly 20 billion yuan in expenses such as employee severance pay, course termination pays, and teaching site rental termination. This has led to the loss of employees and a decrease in the number of teaching points at New Oriental. During the transformation period, the number of employees decreased from nearly 120000 to around 50000, and the number of schools and learning centers decreased to around 700.

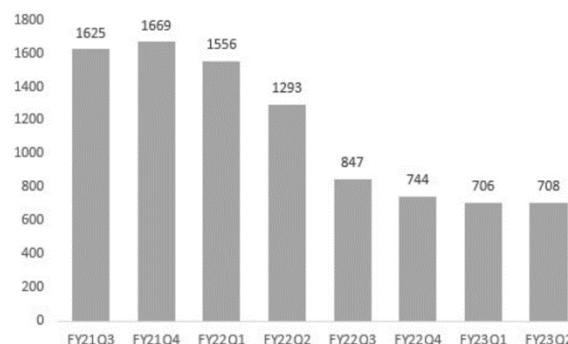


Figure 1: Number of schools and learning centers.

2.3 New Oriental's Strategic Transformation

In July 2021, China's "double reduction" policy was implemented, and New Oriental responded quickly. In August, a Quality Education Promotion and Management Center was established. In October, Shanghai New Oriental opened four major courses and hosting services: maker, Chinese draught, eloquence, and calligraphy. In November, New Oriental officially announced the complete termination of K-9 subject extracurricular training business. The New Oriental Foundation, together with schools and educational centers in Chengdu, Xi'an, Zhengzhou, and other places, donated more than 70000 sets of desks and chairs to rural schools. In December, New Oriental's subsidiary, New Oriental Online (later renamed "Oriental Selection"), began live streaming agricultural product sales. In June 2022, East Buy Holding Limited bilingual live streaming sales became popular. In July 2023, New Oriental established its wholly-owned subsidiary Beijing New Oriental Culture and Tourism Co., Ltd. and its subsidiaries. New Oriental officially entered the domestic cultural and tourism industry, currently forming three major business sectors: education, e-commerce, and cultural tourism. New Oriental's financial report for the first quarter of 2023 shows that after about two years of losses since the implementation of the "double reduction" policy, New Oriental has turned losses into profits in the first quarter (See Figure 2).

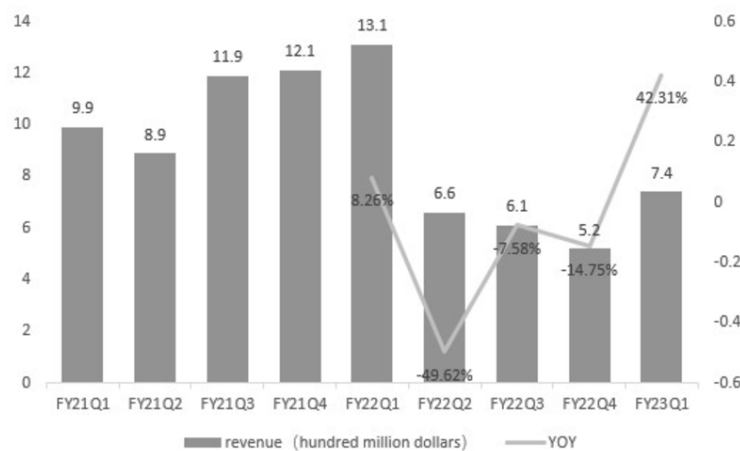


Figure 2: Operating income in the first quarter of 2021 to 2023.

Under the "double reduction" policy, New Oriental's successful strategic transformation has given many educational and training enterprises hope and inspiration. This success is attributed to New Oriental's vast user traffic and good brand reputation, as well as precise self-analysis and appropriate business restructuring.

2.3.1. The Popularity of Quality Education is Increasing, and K-9 Resources are Achieving a Virtuous Transformation

The "double reduction" policy has suspended subject training for K-9. In November 2022, the Ministry of Education and thirteen other departments issued the "Opinions on Standardizing Non subject Extracurricular Training for Primary and Secondary School Students", proposing to "increase the supply of non-subject learning." By the end of June 2023, non-subject training policies will be basically established in various regions. "Each region needs to" refine and publish a list of training categories in various industries "and" improve the management procedures of non-subject training institutions. "After the" double reduction ", the demand for non-subject training may shift to non-subjects, and parents may pay more attention to the comprehensive cultivation of their children's ideological and social abilities.". At the same time, quality education has a certain custodial function and is a necessary choice for dual working families, which can effectively reduce the burden on parents.

As early as 2014, New Oriental established the Quality Education Research and Development Center, which offers courses such as speech and eloquence, hard pen calligraphy, Go, exploration, maker, art, chess, and more. It also offers relatively emerging fields such as programming, robotics, graduate studies, and campsite education, which can meet the diverse needs of different customers. In K-9 subject training, New Oriental has accumulated a large number of customers, who are also potential customers for quality education. Marketing quality education courses for them can effectively reduce costs. Quality education is increasingly supported by policies and gradually integrated into the system of further education and competition. New Oriental's active transformation focuses on programming and art courses, and its programming students have achieved remarkable grades and awards. As of the fourth quarter of 2023,

New Oriental's non disciplinary tutoring business has covered about 60 cities and registered 630000 students.

2.3.2. Examinations and Consultations for Going Abroad

With the normalization of the epidemic and entry and exit, study abroad activities have gradually resumed. At the same time, in the early 23rd, the China Ministry of Education's Service Center stipulated that diplomas obtained through remote learning will no longer be certified, and the demand for offline on-site study abroad has recovered. Currently, with the gradual increase in disposable income of residents, more families are paying more attention to student education; The competition and pressure on traditional domestic education paths are intensifying, and the study abroad population may continue to expand and show a trend towards younger age groups. The demand for study abroad services for related students is becoming more rigid, prompting them to start on-site study abroad. The demand for assistance in visa application and local accommodation services may rapidly increase.

New Oriental started with study abroad services and has successfully applied to overseas universities for hundreds of thousands of students, receiving over 40000 admission letters. With a comprehensive business line, abundant academic resources, and a strong teaching team, it has already gained a good reputation. In addition, the company's multiple business lines, including overseas study tours, language training such as IELTS and TOEFL, study abroad consulting, and domestic exam preparation courses, including CET-4 and CET-6, postgraduate entrance exams, vocational qualification exams, etc., have collaborated and developed efficiently, attracting traffic to each other, reducing corresponding marketing costs, and extending customer value chains. According to New Oriental's financial statements, in the fourth quarter of 2023, its overseas and domestic exam preparation revenue increased by 52% and 34% respectively year-on-year.

2.3.3. Adult Education and College Entrance Exams

The intensified competition for academic qualifications in China has driven an increase in business needs such as postgraduate entrance exams, civil service exams, vocational education and training. New Oriental has a keen observation and quick response, restructured its university and adult training business, integrated advantageous resources, emphasized the focus on college students and adult user groups, and comprehensively upgraded its product system. One is to test the business of upgrading from water to undergraduate level and creating increment. The current employment situation is becoming increasingly severe, with an increase in the number and ratio of applicants for the college entrance examination. Due to the high value of unified enrolment and the limited application for fresh graduates, the participation rate of students who have been promoted to undergraduate programs exceeds 60%. New Oriental established a specialized undergraduate program at the end of 2021. Although it is currently in the early stages of business exploration, it prioritizes service and has gained a good reputation. In the future, it may form a one-stop service with business lines such as postgraduate entrance exams. The second is to steadily promote the postgraduate entrance examination and public service examination business. Since 2015, the number of applicants for graduate exams has continued to grow, reaching 4.57 million in 2022, making competition even more intense. The stable nature of civil service positions has made them a popular employment direction, with a high number of candidates taking the civil service examination. In 2023, the number of candidates who passed the examination for the national civil service examination increased to 2.5977 million year-on-year, and the comprehensive competition ratio was as high as 70:1.

Since 2017, New Oriental has released annual white papers for the postgraduate entrance examination for six consecutive years. With the help of authoritative big data platforms and industry and user research, it provides candidates with the latest analysis of exam data and preparation suggestions, accumulating a good reputation. The increasing pressure of social competition has given rise to a strong demand for postgraduate entrance examination and public service training. The New Oriental brand has occupied the market and benefited from industry development. In the fourth quarter of 2023, the growth rate of adult and college student examination business revenue reached 34%.

2.3.4. High Growth in E-commerce Live Streaming Sales

Orient Select will broadcast live agricultural products in Tiktok at the end of 2021, create the positioning of "live broadcast & agricultural products and technology & cultural communication platform", and realize business income generation. By the end of December 2023, the number of followers of the Oriental Selection account Tiktok has reached 31.145 million, and the number of orders paid on Tiktok has increased by 94.2% year-on-year to 140 million. The company has a multi-platform layout and launched its own app, East Buy Holding Limited, in early July 23. In late August, it entered Taobao Live to achieve diversified traffic channels.

The strong differentiation competitiveness of East Buy Holding Limited has been verified, and the unique knowledge of product promotion content, brand advantages, and resource endowments are difficult to replicate. The product promotion ability and account value have formed a good positive cycle; At the same time, East Buy Holding Limited has demonstrated the ability to create popular self-operated products and continues to expand and enrich its self-operated product categories. Recently, it has invested in the self-operated product supply chain, and its strategy has been continuously implemented with broad growth potential. By gradually building a complete business loop, it has achieved profitability.

2.3.5. Deeply Cultivate the Business of Study Tours and Research, and Expand the Cultural and Tourism Sector for Middle-aged and Elderly People

New Oriental has a history of over 20 years in the field of study tours, research, and campsites, and is one of the early pioneers in the industry. At present, New Oriental has three major businesses: international study tours, domestic research tours, and camp education, mainly targeting young people and children. In July 2023, New Oriental Group invested 1 billion yuan to establish Beijing New Oriental Cultural and Tourism Co., Ltd., officially entering the domestic cultural and tourism industry. It has set up branches in Shaanxi, Gansu, Zhejiang, Xinjiang, and other regions, and launched multiple tourism routes for people aged 45 to 70.

At present, among the total number of tourists in China, the middle-aged and elderly population is nearly 300 million, with over 20% being the elderly population. The demand for tourism is no longer limited to simple sightseeing, and there are higher expectations for diversified tourism such as social interaction, cultural knowledge, and health and leisure. The elderly population have become an important consumer group in the cultural and tourism market. New Oriental is entering new business in the middle-aged and elderly cultural and tourism industry, relying on high-quality and culturally important products to enter the market, and once again starting a business to create a third growth curve. The core advantage of New Oriental's entry into the tourism industry lies in the rapid flow of live broadcast channels, and the differentiated travel explanation services provided by high-quality teachers. It has live broadcast rooms such as "Laoyu Leisure Talk" and "Oriental Selection View the World", and has both Oriental Selection APP and third-party platforms such as Tiktok and Taobao. Star anchors such as Yu Minhong and Dong Yuhui vividly introduce tourism products, which is in line with the new trend of content consumption and helps to quickly obtain user traffic, achieving new business breakthroughs.

3. Conclusions

At present, the impact of the "double reduction" policy on New Oriental's K-9 subject training business has been basically digested, and new businesses such as non-subject training have started to grow rapidly; The original study abroad preparation and consulting services have continued to recover under the background of easing the epidemic; The examination and training business for adults and college students is steadily developing; Subsidiary East Buy Holding Limited also maintains a fast growth rate; The development of the research, learning, cultural and tourism sector has been smooth, and all business lines have made good progress. The successful transformation of New Oriental proves that policies bring both challenges and opportunities, and leading enterprises in education and training have gradually emerged from the pain period and entered a new stage of development.

However, in order to achieve significant and stable development, New Oriental still needs to have a risk awareness. Firstly, the training of high school subjects is not yet clear. Referring to the "Double Reduction Opinion", the management mode of subject tutoring institutions for high school students is still uncertain, and the external policy environment has a significant impact on the company's high school subject training income. The second is to focus on brand reputation and talent loss. Education and training enterprises rely to a certain extent on the resources of famous teachers and brand reputation. The loss of famous teachers and talent resources, or the emergence of many negative news, will have a negative impact on subsequent revenue generation. For example, the relationship between East Buy Holding Limited and Dong Yuhui, which is no longer an ordinary platform and employee, can have a significant impact on New Oriental alone. The third is to focus on business competition within the same industry. The education and training industry is fragmented and highly competitive, especially with the current trend of dividing tracks. New Oriental faces competition in both business and operating regions, which may have adverse effects on revenue and profit margins. Fourthly, new businesses need to strengthen research and make dynamic adjustments. New Oriental's non-disciplinary training, research and tourism, and e-commerce live streaming are still in their early stages, requiring large-scale initial investment. There are many uncontrollable factors such as funds and manpower, and there is significant uncertainty

in the future development situation.

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