

Analysis on the Strategic Selection of China's Education and Training Industry Under the Background of "Double Reduction" Policy

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Abstract: With the introduction and implementation of the "double reduction" policy, China's education and training industries are facing unprecedented challenges. At the present stage, the education and training industry is at the critical moment of enterprise strategic choice. The direction determines the road, and the road determines the destiny. "How to choose and how to choose" is the problem that the stakeholders in the industry need to think carefully about. This paper starts with the development evolution and current situation of China's education and training, takes "New Oriental Education and Technology Group Co., LTD." as an example, and focuses on the future development of China's education and training industry under the double reduction policy.

Keywords: Education and training industry, "Double reduction" policy, Enterprise strategy selection.

1. Introduction

On July 24, 2021, issued by the general office of the central committee of the communist party of China, the State Council general office on further reduce the compulsory education stage students homework burden and the opinions of the external training burden "(hereinafter referred to as the "double reduction " policy), points out that to improve the school teaching quality, at the same time, the comprehensive standard management outside training institutions, optimize education ecology, reduce the burden of students' homework and external training burden, alleviate anxiety in education, promote a scientific and reasonable education teaching mode. The "double reduction" policy seems to be the last straw for the already competitive education industry. The policy document is not only a huge amount of information, but also the local implementation strength is very in place. Overnight, the disciplinary education and training institutions were closed down, and the capital market was fully bearish. The discipline education and training industry seems to have come to the end of the industry. In this situation, the education and

training industry has come to a very important crossroads for the survival of enterprises. At the critical moment of enterprise strategic choice, it is faced with the strategic choice of "how to choose and how to choose".

2. The Development, Evolution and Status Quo of China's Education and Training Industry

2.1. Overview of education and training

Education and training is an important part of the concept of "big education". It is a short-term educational activity about knowledge, skills, behaviors and attitudes in a specific way for their own development, adaptation to employment or other needs[1]. According to the different training content, it can be divided into preschool education, K12 education, higher education, vocational education, language training, quality education, etc. (see Table 1), and with the development of society and economy, new training needs and fields are still emerging.

Table 1. Education and training content

Training content	preschool education	K12 education	higher education	vocational education	Language training	education for all-around development
subdivision	Parent-child education formative education	Subject tutoring After-school hosting Art training College entrance examination consultation	adult education Postgraduate entrance examination tutoring Study abroad training	Career exam cultivate job skill cultivate Enterprise training	Enlightenment English Children's English Study abroad English Business English other	science and technology Sports class arts Puzzle class literature other

For a long time, education and training mainly focus on face-to-face teaching, while online education is restricted in many aspects. However, with the development of the Internet, the constraints of the network have been broken, and online education has gradually become a strong replacement of

offline education.

2.2. The Development course of the education and training industry

China's education and training began in the early stage of

reform and opening up, and the industry scale has reached one trillion yuan. During this period, it has gone through four stages: germination stage, development period, opening up period and transition period.

2.2.1. Bud stage (1978-1992)

During this period, China was busy, and the demand for talents from various industries was strong. With the resumption of the college entrance examination and the upsurge of studying abroad, early education and training institutions came into being.

2.2.2. Period of Development (1992-1998)

With economic construction as the center, the state has gradually loosened the control over the education and training industry. During this period, adult higher education and vocational skills training were very popular, and private training institutions also developed rapidly in this period.

2.2.3. Opening Period (1998-2004)

At the end of the 20th century, many training institutions emerged in China, and at the same time, foreign training institutions also began to seize the Chinese market, so the market began to eliminate in the competition.

2.2.4. Transition Period (2004-present)

China's education and training industry has established many well-known enterprises, such as New Oriental, Good Future, etc. And the industry as a whole began to refine, there are different training directions, training enterprises began to develop into collectivization. Online education is emerging.

2.3. Current status of the education and training industry after the introduction of the "double reduction" policy

On July 23, 2021, on the eve of the release of the "double reduction" policy document, Chinese education stocks fell sharply in the global capital market, the leading New Oriental fell 54.22%, New Oriental Online fell 28%, Good Future fell 70.76%, the parent company GaoTu Group fell 63.4%, and Youdao fell 42.8%. Good future, high way, New Oriental three giants have evaporated 800 billion yuan of market value from the peak. Before that, the education and training industry has always been one of the most favored industries by the capital, and the most direct factor is China's huge educated population base and the increasing pressure of higher education. In fact, relevant departments revised as early as 2018, namely the Law on the Promotion of Private Education the third year, the policy began to tighten[2]. At that time, the macro level of education for non-profit, public welfare has a basic judgment, which is also one of the basis of a series of subsequent adjustments. Since then, the reform of Puhui kindergarten and public education has gradually started, and China's public education system has begun to develop rapidly. This educational reform points to the balance of education, trying to change the education ecology, avoid the monopoly and intervention of capital on education, and finally realize the balance of education"Bridge paving"[3].

After the implementation of the "double reduction" policy, the financial results of the education and training enterprises in the second quarter of 2021 were successively released: impacted by the change of compulsory education and private education regulatory policies, many of the financial results were dismal, and the transformation pressure was huge.51Talk, whose main business is English education for young children, posted a loss after six consecutive quarters of profit. On September 28,51Talk released its unaudited

financial results for the second quarter ended June 30,2021. During the reporting period, 51Talk net income was RMB 579.8 million, up 17.5% year on year; net loss was RMB 27 million, compared to net profit of RMB 32.8 million in the same period last year. According to the financial report, 51Talk mainly comes from one-to-one business, small class business and others. Affected by the "double reduction" strictly forbidden to hire overseas foreign personnel to carry out training activities, all kinds of one-to-one training for foreign teachers will be difficult to continue in the future. While 51 As Talk seeks to expand its overseas business, many private education companies are looking for new opportunities for adult education, vocational education and quality education under the pressure of losses.

On September 22, Gao Tu released its financial results for the second quarter of 2021 ended June 30. According to the financial report, Gaotu net income in the quarter was 2.232 billion yuan, up 35.3% year on year, net loss of 919 million yuan, net profit of 18.63 million yuan in the same period last year, from profit to loss. Gatu K12 online course revenue of 2.091 billion yuan, accounting for 93.68% of the total revenue, business transformation under the "double reduction" is imminent. On August 31, Youdao (DAO. NYSE) reported an unaudited net loss for the second quarter of 2021. Youdao reported net income of \$1.293 billion, up 107.5% year on year, and its net loss attributable to common shareholders under GAAP was \$524 million, compared with \$258 million in the same period last year, up 103.1% from the same period last year. According to the financial report, K12's after-campus training business accounted for about 41.2% of total revenue in the second quarter. After the "double reduction" impact K12, Youdao will take learning products, STEAM courses, adult education and education digital solutions as the four new business growth pillars.

After the double reduction, art and sports training is rapidly heating up, and teaching enterprises "cluster" influx. According to CCTV financial data, there are 370,000 art training related enterprises and 660,000 sports training related enterprises in China[4]. Since the release of the "double reduction" policy, more than 33,000 new enterprises have been added to the above two types of training, an increase of 99% compared with the same period last year.

3. Case analysis —— New Oriental Education and Technology Group Co., LTD

3.1. Company Profile

New Oriental Education and Technology Group Co., Ltd. (hereinafter referred to as "New Oriental"), headquartered in Zhongguancun, Haidian District, Beijing, China, is not only a comprehensive education group, but also an education and training group[5]. The company's business covers preschool education, basic education in primary and secondary schools, overseas consulting, book publishing and other fields. It is a prominent representative enterprise in China's education and cultural industry. Therefore, it takes it as an example as the research object.

3.2. The Development Status of New Oriental Under The "Double Reduction" Policy

During the industry winter, the trend of the leading New Oriental is also concerned. On September 25, New Oriental

released its annual report for fiscal year 2021 ended May 31 (see Table 2). According to the report, New Oriental's revenue for fiscal 2021 was \$4.277 billion, up 19.5% year on year; net profit was \$230 million, down 35.03% year on year, and net

profit attributable to shareholders was \$334 million. Among them, New Oriental earned \$3.667 billion from K12 tutoring, test preparation and other courses, accounting for 85.8 percent of its total revenue.

Table 2. Annual Report of New Oriental Education and Technology Group Co., Ltd. for year 2021

	In 2021, RMB 1,000	In 2020, RMB 1,000
Total revenue	1,418,655	1,080,587
Total revenue cost	(1,006,447)	(587,501)
gross profit	412,208	493,086
Other income, earnings and losses	(86,886)	195,653
Impairment of property and equipment	(62,588)	--
Impairment of the use right of assets	(16,678)	--
Impairment loss under the expected credit loss mode	(5,702)	(1,566)
Loss, deduction and return	(1,188,967)	(872,293)
Sales and marketing expenses	(444,387)	(317,286)
Research and development expenses	(259,081)	(184,692)
Administrative expenses	--	(15,981)
Other expenses	7,788	(1,796)
Branch store associated company performance	(15,099)	(10,576)
cost of financing	--	--
Excluding pre-tax losses	(1,659,392)	(715,451)
Income Tax Credit (Expenses)	1000	(42,788)
Loss within the year	(1,658,392)	(758,239)

In fiscal year 2021, New Oriental's online sales and marketing expenditure reached 1.189 billion yuan, r & d expenditure 444 million yuan and administrative expenditure 259 million yuan, up 36.35%, 40.06% and 40.76 respectively compared with the same period last year. "Using huge advertising investment and cash loss for growth" is the main business strategy of New Oriental Online in fiscal year 2021[6]. In fact, this is last year many K12 institutions

difficult to escape the business strategy.

According to the cash flow statement (see Table 3), the net cash outflow from operating activities reached 910 million yuan, and New Oriental Online "almost relies on financing funds" for blood transfusion operation. The net cash raised in fiscal year 2021 was RMB 1.412 billion. Operating huge losses, and the expenses are greatly increased difficult to escape.

Table 3. Cash Flow statement of New Oriental Education and Technology Group Co., Ltd. for fiscal year 2021

	FY 2021 (RMB one thousand yuan)	FY 2020 (RMB one thousand yuan)
Net cash used from operating activities	(913,675)	(521,434)
Net cash income from investment activities (used)	659,114	(1,433,379)
Net cash proceeds from financing activities (used)	1,412,147	(135,486)
Net increase (decrease) in cash and cash equivalents	1,157,686	(2,090,299)
Cash and cash equivalents at the beginning of the fiscal year	480,251	2,497,621
The impact of the changes in the transfer of vehicles	(118,273)	72,929
Cash and cash equivalents at the end of the fiscal year	(1,519,564)	480,251

3.3. Challenges faced by New Oriental under the "Double Reduction" policy

3.3.1. External Challenges

There is no doubt that the introduction of the "double reduction" policy is the biggest challenge facing the education and training industry like New Oriental. According to the relevant provisions of "double reduction", the existing for-profit discipline training companies under the management of the industrial and commercial department for students in compulsory education must be transformed into non-profit "private non-enterprise" units registered with the civil affairs department. After the completion of the transformation, the accounting and audit management of the training institution will be similar to that of the non-profit private school, and the profit will become the school-running surplus, which can only continue the rolling school running without dividends. This

has hit hard the lifeblood of the education giants. Over the past decades, dozens of listed companies have been incubated in the training industry, and online education has become an investment outlet of billions of dollars after the epidemic[7].

In a highly securitized market environment, it is impossible for large companies to directly donate all their assets as "private" units, so there are only two options for "giants": either close their businesses and completely transform them to leave the regulatory perspective, or package them Breaking away the corporate system and creating a new non-profit entity, the two operate in parallel[8]. No matter how to choose, listed public Departments are facing a significant reduction in business and assets.

3.3.2. Internal challenges

Internal challenges mainly come from cash-flow crises.

One is that advertising for institutional education has been suspended. The "double reduction" policy proposes that

relevant central departments, local Party committees and governments at all levels should strengthen the management of after-school training advertisements, and ensure that mainstream media, new media, billboards and online platforms in public places and residential areas do not publish or broadcast after-school training advertisements.

Second, the listing of the financing channels of institutions encountered obstacles. The "double reduction" policy clearly requires that disciplinary training institutions shall not be listed for financing and prohibit capitalization operation; listed companies shall not finance and invest disciplinary training institutions through the stock market, or purchase the assets of disciplinary training institutions by issuing shares or paying cash.

Third, the funds of institutions are strongly regulated. According to the "double reduction" policy, the pre-charges of after-school training institutions are controlled by means of third-party custody and risk reserve, and the supervision of loans in the training field is strengthened to prevent the problems such as "difficult refund fees" and "running away with money".

Finally, institutions need to fill the gap in refunds. Before the policy, many K12 discipline training institutions have charged parents for autumn class tuition in advance, and almost all institutions will use the advance payment for other purposes. Once the refund amount is too large, it is likely to face the crisis of collapse. Perhaps because of the tight cash flow, some head players have had to start the "big layoffs" campaign to optimize their operations and reduce costs. Head players have entered a "state of emergency", let alone the players in the waist of the industry, they are facing an even less optimistic situation, not only by the head players layer upon layer squeeze, but also easy to be robbed by the tail players[9].

3.4. Enterprise strategic choice of New Oriental under the policy of "Double Reduction"

3.4.1. Obey the policy guidance and stabilize the brand image

Careful reading of the "double reduction" policy shows that the introduction of this policy is not to make the complete disappearance of after-school education institutions, but to standardize and strict management and leverage the restoration of the entire education ecology. The fundamental goal is education balance, so there is no need to worry. New Oriental has a huge user group, but also has many loyal users. In the trough period of the education and training industry, we should continue to play the leading role of the leading enterprises in the education and training industry, and assume the due corporate social responsibility. In the era of the reform of the education and training industry, continue to lead the tide, continue to carry forward and maintain the brand image of New Oriental with the spirit of waiting for no one and the courage of self-revolution.

3.4.2. Return to university business and focus on adult education

At the end of September 2021, New Oriental held a press conference on the college students' business brand upgrading in Beijing that New Oriental will comprehensively upgrade its existing CET-4 projects, postgraduate entrance exams, overseas examination projects, teaching projects, and accounting projects, and will also expand education and

training programs such as computer rating examination and judicial examination in the future. The business market of universities is broad. According to statistics, in 2020, the total scale of all kinds of higher education in China is 40.02 million, with a total of 2,688 ordinary institutions of higher learning (including 257 independent colleges), an increase of 25 or 0.94% over the previous year[10]. In addition, as early as 28 years ago, New Oriental started with the business of college students. At the current time, it focuses on the university business that has been deeply cultivated for many years, such as Cet-4 and CET-6, postgraduate entrance examination and other fields, and has a strong leading advantage in differentiation. In fiscal year 2021, New Oriental K12 business accounted for 55% of the company's total revenue. At this time, shifting a large amount of resources in the K12 field to university business can inject new vitality into the current relatively dull university business and cultivate more competitive advantages for the future innovation and development of enterprises.

3.4.3. Focus on rural vitalization and help rural education

Education is the pillar of the countryside. The revitalization and modernization of the countryside in China cannot be separated from the development of rural education. At present, the national rural education is generally facing a "hollowing out" situation. Although with the promotion of rural revitalization policies this year, the hardware conditions of rural schools have been significantly improved, but the teachers and management can not keep up, the quality can not improve, and the students can not stay.

Based on this judgment, under the current background, New Oriental should pay attention to the supply-side reform, inject part of the excess education and training resources into the rural areas, and give full play to the social responsibility of enterprises. This move will also help to establish and maintain the brand image of New Oriental in the post-education and training era, and inject a strong "new" force into the development of the enterprise.

4. Suggestions and Prospects

4.1. Suggestions

Whatever happens, there is no doubt about the combination of technology and education, and the development of the globalization of education. The education technology industry is still long-term optimistic in the future. In the next 3-5 years, China, the United States, India and Europe will be the main market flow of education technology venture capital. The difference between countries is that funding from developed countries mainly flows to higher education, corporate training and lifelong learning, while financing from developing countries is dominated by K12.

Under the epidemic, the global search volume of online education and related search terms soared by 30% -50%, which not only accelerated the process of online education, but more importantly, changed people's educational concepts and methods subtly. According to Google's search data, the global search interest index for online learning buzzwords soared to its peak in nearly two years in March 2020, and has since declined.

From the perspective of capital, the view of overseas education market mainly focuses on three markets. The first is India, where the market is concentrated and the country is on the rise, and investment in education is also on the rise.

The second is the United States. In recent years, investors prefer TOB projects, but the C-end demand is still there. The third is Southeast Asia, whose cultural and linguistic attributes are closest to China, and there are a large number of young people. Chinese education companies often choose language education when they go overseas. The demand for language education is greater in populous countries and high premium markets. India, the United States, Brazil, Japan and Indonesia are among the top five in search volume. In the Chinese training market, the most searched users came from the United States, the Philippines, Malaysia, India and Singapore. Compared with the learning needs of various languages, English learning is still the main part, supplemented by the language. Overall, Chinese learning has not yet become the mainstream in the world. For overseas travelers, good localization is the way to last long.

4.2. Outlook

The implementation of the "double reduction" policy is not only a major adjustment of China's education pattern, but also a great change of the educational concept. In the future, more and more discipline training institutions will successively join the ranks of transformation, and the new entrants will also face the competition of "old players" in each track. In the short term, for the training institutions of various disciplines, "broken arm survival" is a last resort, during which they must experience a series of setbacks and suffering. Of course, the market interpretation of the "double reduction" new policy, may be the hot spot to non-academic quality education, after all, there is a huge demographic dividend of education, as well as the huge extended education market, interest education, quality education will become the next direction of capital chase, we can wait and see.

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