

The Impact of Double Reduction Policy on K12 Education and Training Enterprises: Case Studies of New Oriental and Tomorrow Advancing Life

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ABSTRACT

After the introduction of the double reduction policy, China's K12 education and training enterprises have been seriously affected. This essay takes New Oriental Company (hereinafter referred to as: XDF) and Tomorrow Advancing Life Company (hereinafter referred to as: TAL) as the objects of study, and studies the ways of survival of China's K12 education and training enterprises through comparative study. Through research, it is concluded that, under the influence of the double reduction policy, the education and training industry in the K12 field is mainly faced with the problems of cash flow shortage and major business transformation. Relevant education and training enterprises should transform according to the existing foundation and market demand to change the current situation.

Keywords: *Double Reduction Policy, New Oriental, Tomorrow Advancing Life, Transition, K12*

1. INTRODUCTION

K12 (Kindergarten Through Twelfth Grade) is the abbreviation for preschool through twelfth grade and is currently widely used to refer to elementary education. On July 24, 2021, the General Office of the CPC Central Committee and the General Office of the State Council issued the document on Further Reducing the Burden of Homework and Off-Campus Training on Students in Compulsory Education (hereinafter referred to as the "Double Reduction Policy") [1]. On July 28, the general office of Ministry of Education issued an document which further defined compulsory education training classes and the disciplines outside class scope. Under China's new education policy, this paper will take XDF and TAL as examples to explore the influence of the double reduction policy on China's K12 education enterprises and the possibility of their transformation by using the method of comparative research so as to achieve the guiding significance for the development direction of education enterprises in the current K12 market.

2. DOUBLE REDUCTION POLICY IN CHINA

In 2021, two policy documents with rich content had

a huge impact on China's extracurricular training and guidance industry, and subsequent local implementation of the policy was also in place. On July 24, 2021, the General Offices of the CPC Central Committee and the State Council issued the Opinions on Further Reducing the Burden of Homework and Off-Campus Training for Students in Compulsory Education (hereinafter referred to as the "double reduction policy") [1]. On July 28, the General Office of the Ministry of Education issued a notice on further clarifying the scope of subject and non-subject categories of after-school training in compulsory education [2]. It is stipulated in the document that off-campus training institutions shall not occupy national statutory holidays, rest days, and summer and winter holidays to organize disciplinary training, which has had a huge impact on enterprises in China's K12 education industry.

2.1. The crazy market of education and training before policy

Just before the policy was released, the education and training market was a darling of the capital, and its popularity continued to rise. Thanks to COVID-19, online education was booming. Entrepreneurs, capital, social labor, students and parents all poured in, and the online education company raised more than \$3 billion in

just one year. From 2020 to the first half of 2021, more than 230 investment and financing events took place in the education industry, with the total financing amount exceeding 68 billion yuan [3].

According to the research report on China's online education industry in 2020 released by IResearch, the education industry has received the most financing under the epidemic, among which online education is the most favored by capital. In 2020, the industry scale of China's online education market alone reached 485.8 billion yuan, and many companies completed more than 1 billion dollars of financing within a year [4].

In 2020, a total of 116.4 billion yuan was raised for education, of which 103.4 billion yuan was raised for online education, accounting for 89%. At the same time, the report also pointed out that the "Matthew effect" is obvious in the industry, with 80 percent of the 103.4 billion yuan of capital flowing to the online education industry going to the top five companies-TAL, New Oriental, Gaotu Class, Yuanfudao, and Zuoyebang [4].

As of June 17, 2021, there were 490,000 enterprises related to education and training nationwide, and 54,300 enterprises related to education and training were added in 2021, according to Qichacha data. In addition, the number of registrations in 2020 was the highest in 10 years, with 84,000 new registrations. In the case of hot capital, not only has the number of registered education and training institutions increased, but many well-known businesses have begun the listing process, ushering in the peak market value [5].

2.2. Market reaction of education and training after policy

The release of the policy is like a rainstorm that poured out the flame of education and training track after the double reduction policy. Online education industry in

capital, advertising, recruitment and other aspects rapidly press the pause key. Education and training enterprises, especially in the K9 school age group of subject extracurricular training tutoring education companies, are facing huge challenges. Companies have to cut and adjust business. The investors exit, teachers and other workers are unemployed [3]. It is reported that on the second day of the announcement of the double reduction policy, the layoffs indicator set by GaoTu Education involves tens of thousands of people, according to a 2021-Teach industry talent market analysis report in June. In July, the number of jobs released in the education and training industry dropped significantly compared to the previous months. In addition, a significant proportion of employees working in education and training institutions have applied to leave their jobs.

There is a clear provision in the double reduction policy that all current educational enterprises related to disciplinary training shall be uniformly canceled by the market department. The capital market reacted fiercely in the afternoon of the same day, and educational stocks collectively entered the slump mode. As of the end of the day, XDF's Hong Kong stocks fell 40.61%, and New Oriental Online fell 28.07%. Scholar Education fell 28.53%; Excellence Education Group fell more than 21.48%. New Oriental once extended the decline to 50%, and the Hong Kong Stock New Oriental share price at its lowest point in history also fell, as well as the United States stock concept education shares which was opened by heavy setbacks. Due to excessive volatility, TAL once triggered fuse in the United States stock market on July 23, and finally closed down 70.76%. GaoTu Company closed down 63.26%. GaoTu, XDF, TAL, three giants from the peak, has evaporated 800 billion yuan of market value. The day, only the related Hong Kong stocks and American stocks of education companies fell more than 100 billion yuan in market value [6].

Table 1. Black Monday for education stocks [6]

Black Monday for education stocks								
	July 22nd		July 23rd			August 19th		
The listed company	Closing price	Market value(100 million \$)	Closing price	The rise and fall	Market value(100 million\$)	Closing price	Market value(100 million\$)	Policy changes since the decline
New Oriental	6.4	109.71	2.93	-54.22%	50.23	1.81	31.03	-71.72%
New Oriental Online (HKD)	8.23	82.36	5.92	-28.07%	59.24	4.08	40.43	-50.43%
Tomorrow advancing life	20.52	132.33	6	-70.76%	38.69	5.07	32.7	-75.29%

GaoTu	9.58	24.48	3.52	-63.26%	9	2.38	6.08	-75.16%
Netease Youdao	22.19	27.95	12.69	-42.81%	15.99	9.68	12.19	-56.38%
Rise Education	2.27	1.28	1.35	-40.53%	0.76	0.81	0.46	-64.32%
Lead the Education	9.54	15.04	6.18	-35.22%	9.74	2.85	4.49	-70.13%
Beijing Together Education Technology	2.3	4.44	1.41	-38.70%	2.72	1.08	2.08	-53.04%
OneSmart Education	1.05	1.7	0.659	-37.24%	1.06	0.54	0.88	-48.57%

3. SITUATION OF EDUCATION AND TRAINING ENTERPRISES

3.1. Cash flow shortage

With the stock market plummeting and a large amount of funds being withdrawn, education and training institutions will collectively face a cash flow crisis, forcing K12 Education to either close down or passively transform. The cash flow crisis mainly comes from four aspects..

First, educational advertising for enterprises has been suspended. According to the double reduction policy, relevant central departments and local party committees and governments at all levels should strengthen the management of advertising for off-campus training and ensure that mainstream media, new media, public places, residential areas, all kinds of billboards and network platforms do not publish or broadcast advertising for off-campus training.

Second, institutions listed financing channels blocked. The "double reduction" policy clearly requires that K12 Education Company shall not be listed for financing, and capitalization operations are strictly prohibited. The listed company shall not invest in disciplinary training institutions through stock market financing, nor shall it purchase the assets of disciplinary training institutions by issuing shares or paying cash.

Third, institutions' funds are strongly supervised. According to the policy of "double reduction", risk control is carried out on the pre-charge of off-campus training institutions by means of third-party risk reserve, strengthening supervision of loans in the field of training, and preventing the occurrence of problems such as the difficulty of withdrawing money from the training institutions by refunding fees.

Finally, institutions to fill the gap of refund before the introduction of the policy, many K12 education company

have charged parents in advance for the fall class tuition, and almost all institutions will use the advance money for other purposes, once the amount of refund is too large, it is likely to face the crisis of collapse.

Perhaps because of the tight cash flow, K12 education company have to start mass layoffs in order to optimize operations and reduce costs [7].

On October 25, the Ministry of Education released the data on the progress of the pilot areas of the double reduction. The proportion of existing training institutions in Beijing has been reduced by 60%. According to a 2021 education and training industry talent market analysis report shows that in June and July this year, the number of jobs released in the education and training industry decreased by 9% and 6.5% month-on-month. The current data shows that 51.4% of those who applied for jobs in education and training institutions in July 2021 have left their jobs, which is a shocking figure [5].

3.2. Forced transition

According to the double reduction proposal, Existing discipline training institutions (for students in the compulsory education stage) are uniformly registered as non-profit institutions, and these institutions are forbidden to be listed for financing, and capitalization operation is forbidden. Analysis suggests that for such training institutions with K9 business, in a sense, it can be understood as either choosing K9 De-capitalization of the field to become a non-profit discipline training institution: or choose to abandon K9 business, retain the existing position in the capital market, and turn to develop other businesses.

According to New Oriental's 2021 financial report, the revenue of K-12 AST exam preparation and other courses, including K9 business, accounted for 85.8% of the total net revenue, about \$3.669 billion [8].

TAL's recent financial disclosure is the fiscal year 2021 Q4(2020.12-2021.2), 3 months of revenue is 1.363 billion dollars. Its core businesses are Xueersi Peiyu, Xueersi Online School and "1-to-1" of Aizhikang, accounting for 53%, 32% and 6% respectively, and all three are in the K9 academic business, adding up to 91%. Even if none of the other disciplines are involved, it has shrunk to a tenth of its size, roughly the same size as in 2014, and is spending a lot of money to deal with things like layoffs and rent-cancellations [8].

For these two companies, no matter which choice they make, they will lose their main business. K12 market is not suitable for the survival of New Oriental and TAL education companies. In order to survive, the enterprise must start to seek a reasonable way to transform.

4. COUNTERMEASURES

4.1. Ways to ease the cash flow crunch

4.1.1. XDF

To alleviate the problem of cash flow shortage, New Oriental began to cut operating costs.

In Beijing and Shanghai, the New Oriental campus has been closed down on different scales and trends. China Economic Weekly reporters visited a number of New Oriental campuses in Beijing where many campuses have been closed, and suspended all offline business. A small number of staff in a Beijing school told reporters that there are more than 50 school districts in Beijing, about half of which are scheduled to close. Staff of each school district have different explanations of the reasons for the closure. Some people explain that due to the impact of the epidemic, their business has shifted to online, while offline business has been reduced. Also, some people tell a reporter that it is because of K9 teaching business plan termination, its related campus is about to be cut on October 28. The reporter called New Oriental Shanghai some campus, and the staff also said, Shanghai also has a campus rent-out shop, has not been closed is likely to be closed in the future. With the cancellation of weekend training classes, the business volume will be much smaller, teachers will schedule fewer classes, and the cost pressure on the learning center, such as rent, will increase. A staff member told reporters that on November 8, Yu Minhong revealed in a live broadcast that nearly 1,500 teaching sites of New Oriental will give up rent. Six or seven billion yuan was spent on the decoration alone, plus the deposit for liquidated damages, plus the tuition fees for students and the severance fees for staff and teachers, which is a huge amount of money [8].

4.1.2. TAL

TAL's operation is relatively optimistic, but it also faces the problem of cash flow shortage.

As of the end of February 2021, the total balance of TAL's cash equivalents and short-term investments was \$5.938 billion, about 37.8 billion Yuan; Net assets were \$5.2 billion, about 33 billion Yuan in liabilities. The largest two items in the TAL were corporate bonds and deferred income, which were \$2.31417 billion respectively. Among them, deferred income mainly came from prepaid tuition fees, and some of them could be absorbed by services. The direction of transformation is becoming clearer, and capital is also re-examining the education and training industry. Goldman Sachs, Greenwoods asset and other institutions are buying TAL against the trend, etc. The downturn has come to an end, and the valuation has recovered to some extent. By the end of November, the market value of TAL stood at 3 billion dollars, more than 50% higher than the low point. With a strong balance sheet and warm capital, TAL can overcome the current crisis and win time for a second venture. Xiong Bingqi, president of the 21st Century Education Research Institute, observed that TAL announced that it would complete such course services that users had signed up for with both quality and quantity, which indicated that its transition and withdrawal would be relatively stable [9].

4.2. Business transformation and exploration

If companies do not want to transform into non-profit organizations, the transformation and exploration of their main business is also necessary.

4.2.1. XDF

Yu Minhong once stressed in public speeches that primary and secondary school students need to strengthen quality education, and real quality education is the comprehensive cultivation of a person, including culture, music, art, sports and other aspects. With the progress of human society and civilization, it has become the general trend to cultivate innovative composite talents. Offering quality-oriented education courses other than cultural courses is conducive to the cultivation of all-round talents. While actively promoting the popularization of compulsory education, it also promotes the continuous improvement and development of students [10].

On September 16, New Oriental online in its annual report on the future business development has made a change, the original preschool education K12 education and college education three plates, only college education to retain, preschool education and K12 education by overseas test preparation products business innovation technology [2].

4.2.2. TAL

Compared with New Oriental, the business transformation process of TAL appears to be fast after farewell to K9 subject business. TAL founder Zhang Bangxin pointed out three strategic directions: quality education; the output of technology ability; and promoting overseas business at present.

On June 24th, the children's English brand of TAL, libu English, was officially renamed libu, upgraded and expanded quality education, and launched a series of related products, such as drama, eloquence, aesthetic education, as well as the offline learning space-Libu Children Growth Center, which was exactly one month before the launch of the Double Minus document.

In the internal letter, Zhang Bangxin mentioned that the focus of the business has changed from the original subject training to the quality education of cultivating the ability of children to benefit their whole life. Zhang Bangxin mentioned two ways: first, to carry out humanistic aesthetic education, scientific intelligence programming and other subjects; second, explore music, sports, art and other categories.

TAL has laid out several business lines of quality education for children aged 3-12. Thanks to the accumulation of English in the early stages of Libu, up to now, it has opened nearly 200 Libu children's growth centers in nearly 80 cities across the country, serving more than one million students [9].

According to the official website, its main layout is five categories of quality products, namely drama aesthetic education, intelligence, eloquence and reading materials. Another quality education brand is Learning and thinking quality Center.

It is worth mentioning that TAL has been investing in the field of quality education since 2012, according to media statistics. In the past 9 years, it has initiated 49 investment events in the field of quality education, covering 37 invested education projects and preferring the early childhood education and STEAM education. As far as some subdivision circuits are concerned, the possibility of in-depth cooperation or even merger with these targets cannot be ruled out [9].

4.3. The possibility of developing international market

Excellent enterprises should have the ability to adapt to the evolution of the environment. Under the influence of the double reduction policy, it may as well explore the market and carry out overseas primary and secondary school subject training.

As early as 2014, Wang Dinghua, director of the First Department of Basic Education of the Ministry of Education, pointed out that actively carrying out research

trips is an important part of the combination of school education and after-school education, so relevant enterprises can combine their own advantages to carry out such new businesses [11].

TAL started its international journey several years ago, and set up overseas branch schools in many places. According to the official website and official micro information of Think Academy(TAL's oversea campus in Silicon Valley), it provides mathematics and Chinese courses, and has audition lectures. Most of the teachers are from the world's top universities, and have won awards in competitions. Taking mathematics as an example, it can be divided into long-term courses and short-term courses, and long-term courses can be divided into campus basic systems and advanced competition systems. According to its official account, which is certified as "Think Academy Silicon Valley," enrollment for its spring class began in October 2020. Think Academy has developed the only bridging program between primary and secondary schools for fifth graders in the United States. The group will continue to establish overseas business model brand recognition and operational ability in the next 5 to 10 years or even longer, said Zhang Bangxin. In terms of the path to promoting overseas business, the model of Think Academy is familiar to TAL. Once the market is verified, it has the opportunity to carry out mass production relatively quickly [9].

5. CONCLUSION

Through research, it is concluded that, under the influence of the double reduction policy, the education and training industry in the K12 field is mainly faced with the problems of cash flow shortage and major business transformation. Through comparative research, it is found that relevant educational enterprises should start to seek changes and reduce costs. Excellent education resources will never overflow, and the most important thing is the reasonable allocation of resources. Through this study, the author finds that in the process of enterprise transformation, we should combine the existing foundations of enterprises and carry out the transformation in line with the market demand to achieve a win-win situation for enterprises and society. Due to the limitation of public information and time, the author cannot analyze more educational enterprises. Therefore, the author hope that the transformation strategies of existing K12 education and training institutions in China can be studied more specifically in the future so as to provide more guidance for enterprises in the education and training market.

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