



How New Oriental Turns the Corner Based on PEST Analysis and Porter's Five Forces Analysis

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Abstract

This research aims to understand the ongoing process of the New Oriental's transformation. Using extensive secondary research and text mining as a primary approach to collect information about New Oriental's history and future plan of transformation. PEST analysis is used as an extensive tool to take step by step approach in analyzing the general environment for the education companies. Porter's Five Forces analysis is used as tool to thoroughly understand the opportunities that exists in the specific general environment. Porter's five force analysis provides a method to understand the general position of New Orientals in the Chinese education market. This study finds out that New Oriental's core competencies will simplify the process of transformation, and the strategy of e-commerce and International expansion will be effective. Overall the study is strongly qualitative in nature and explores multiple avenues that an education company can implement to penetrate and gain greater market share.

Keywords: *SWOT Analysis, Porter's Five Force, PEST Analysis, Education.*

1. INTRODUCTION

On July 24, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the "Opinions on Further Reducing the Burden of Students' Homework and Off-campus Training in Compulsory Education", announcing the official implementation of the "double reduction policy" [1-2]. This has caused a huge negative impact on the concept of stocks in education. (1) Disciplinary training institutions shall not be listed for financing; (2) Disciplinary training institutions are uniformly registered as a non-profit institutions. (3) Off-campus training institutions shall not occupy the national holidays, rest days, and summer vacations to organize subject training. These three rules directly hit the bottom of subject cram schools, and also made the layout of online primary and secondary education funded by many education giants to nothing [3].

This sudden change made it too late for major education companies to resist, and New Oriental, as the leading brand in the education industry, was the first to bear the brunt of the policy [4-6]. How to seek transformation in the context of major policies is also an important issue that New Oriental is currently facing.

The purpose of this article is to explore the ongoing process of New Oriental's transformation. Using an extensive literature review and text mining as the main methods, information on New Oriental's history and future transformation plans was collected. Tools to gain a thorough understanding of the overall environment and opportunities by using PEST analysis and Porter's Five Forces analysis. Provide policy basis for the development of New Oriental.

2. FIRM DESCRIPTION

2.1 Company Introduction

Founded on November 16, 1993, now in mainland China, New Oriental is the biggest comprehensive education group and education company [7]. It was the first company in the field of training college students for English tests, at the time of 2001, based in the Beijing New Oriental English School, the New Oriental Education Technology was founded. Currently, New Oriental's business has already bolstered to English test training, K-12 education (kindergarten to 12th-grade education), and third foreign language for Chinese students, general education in Youneng Middle School (mathematics, Chinese, English, comprehensive liberal arts, comprehensive science), study abroad consultation,

etc. The following Table shows the company's **2.2 Company's Development History** development history.

Table 1. Big events in company's history

1993	Beijing New Oriental School was established.
1996	New Oriental Bookstore opened; the New Oriental Overseas Consulting Service Center was established.
2000	Guangzhou and Shanghai New Oriental Schools were established; New Oriental Education Online was established.
2005	New Oriental schools in Hangzhou and other cities were established; Beijing New Oriental Xuncheng Network Technology Co., Ltd. was established.
2006	New Oriental successfully went public in NASDAQ, becoming the first US listed Chinese education stock.
2007	New Oriental Preschool Education Development Center was established; New Oriental International High School Project Department was established; Signed a strategic cooperation agreement with the American Educational Testing Service Center.
2008	New Oriental Family Education Research and Guidance Center was established.
2009	New Oriental Youneng Middle School Education National Promotion and Management Center was established
2010	The UMS teaching management system is fully launched, officially entering the field of personalized education.
2011	New Oriental.com was officially launched; Megason International Education was established; officially entered the advanced education market for 4-17 year olds in China.
2012	Beijing Hongkaide International Travel was established, focused on overseas study tour market.
2017	Become China's first education brand with a market value of over 10 billion US dollars; Beijing Shuangshi Oriental Education Technology Co., Ltd. was established, Develop business with the help of the double-teacher model; Beijing Dongfang Education Technology was Established, focusing on the expansion of the New Oriental Foreign Teacher Project; released the live broadcast brand "blingabc" for young foreign teachers; jointly invested with iFLYTEK to establish Xunfei Education Technology Co., Ltd. Released their first intelligent learning product RealSkill.
2018	As a cornerstone investor establish the New Oriental Education and Culture Industry Fund, focusing on equity investment in the education industry and pan-educational culture; and established the New Oriental Artificial Intelligence Research Institute to explore the development direction and application of artificial intelligence in the field of education.
2019	New Oriental Online successfully went public on the Hong Kong Stock market, becoming Hong Kong stock market's first online education stock, formally launching the double-capital platform strategy.
2020	The self-developed "New Oriental Cloud Classroom" has been fully promoted during the epidemic, providing online education products for more than 1 million students; the Internet Product Technology Center was established; the New Oriental University Division was established, and the New Oriental University Student Learning and Development Center education was established.

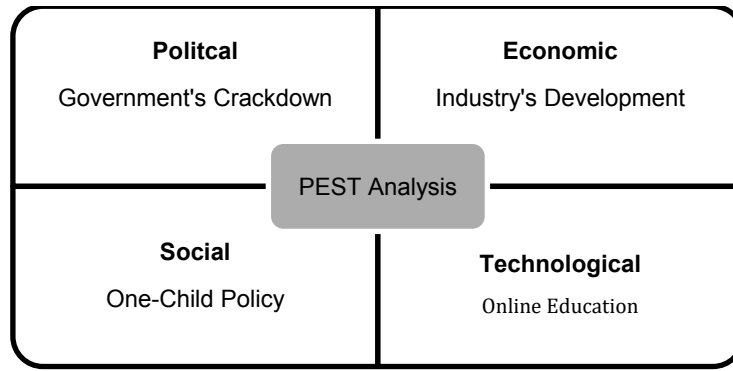


Figure 1. New Oriental’s PEST Analysis

3. PEST Analysis

3.1. Political

As Figure 1 shows, in 2021, the Chinese government imposed strict controls on K-12 education. In the "Notice of the General Office of the Ministry of Education and other three departments on the unified registration of off-campus training institutions for compulsory education students as non-profit institutions" issued by the Ministry of Education on August 30, 2021 [8-9]. It is clearly stipulated that before the end of 2021, those private education institutions should suspend enrollment and charging before completing the registration of non-profit

institutions. Although New Oriental was only engaged in English education in the early days, due to the development of k-9 education in China, New Oriental has also carried out k-9 education in recent years. In the financial report for 2021, New Oriental stated that they will continue to carry out and expand the investment scale on the k-9 education [10]. In fact, the crackdown on k-12 education is not a sudden release. In the year of 2018, there was a sequence of early policies that those education company didn’t pay attention to.

Now New Oriental is facing a tough policy environment, their only choice is give up the k-9 education business and back on their old business.

Table 2. Chinese government’s policies on education industry

2018.02	The Ministry of Education and other four departments jointly issued the “Notice on Effectively Reducing the Extracurricular Burden of Primary and Secondary School Students and Carrying out Special Governance Actions for Off-campus Training Institutions”.
2018.08	The General Office of the State Council issued the “Opinions on Regulating the Development of Off-campus Training Institutions”, requiring off-campus training institutions to file with the local education department, and also made requirements on training content, teachers, and class time.
2018.09	The General Office of the Ministry of Education issued the “Notice on Effectively Doing a Good Job in the Special Governance and Rectification of Off-campus Training Institutions”.
2018.11	The General Office of the Ministry of Education, the General Office of the State Administration for Market Regulation, and the General Office of the Ministry of Emergency Management jointly drafted a “Notice on Improving Several Working Mechanisms for Special Governance and Rectification of Off-campus Training Institutions” to put forward regulatory requirements for online training institutions.
2019.12	The Ministry of Education and other nine departments jointly issued the document “Notice of the Ministry of Education and Other Nine Departments on Printing and Distributing Burden Reduction Measures for Primary and Middle School Students”. The document requires standardizing the management of off-campus training institutions, including not conducting excessive training, hiring in-service primary and secondary school teachers, not conflicting with school teaching hours, and ending no later than 20:30; the document also requires schools to rectify school-running behavior, including including parallel classification, no teaching beyond the outline, no ranking of students’ test scores, strict management of the number and time of homework, and flexible school leave.

3.2. Economic

3.2.1. Macro Economic Analysis

From a macroeconomic perspective, China's economy will broadly retain the rehabilitation tendency in 2021, but the speed of growth will be decelerated due to several factors. The economic aggregate of the year came to 17.7 trillion dollars, compared with 2020, which is a raise of about more than 3 trillion U.S. dollars (equals the United Kingdom's GDP). The economic growth rate was 8.1% year-on-year, and the average growth rate for two years was 5.1%. China's economic growth will be decelerated in the second half of 2021. China's real GDP increased 4.0% year-on-year in the fourth quarter but fell further from 4.9% in the third quarter due to the impact of the base. Excluding the underlying factors, the compound annual growth rate for the second quarter was 5.2%. Today, there is still a lot of uncertainty in the global economy. More infectious mutant viruses are still widespread, commodity prices are still high, impacts on international supply chains continue, and developed countries are accelerating the pace of macropolitical normalization. China's economic recovery will face triple pressure from shrinking demand, supply shocks, and expectation weakening.

3.2.2. Industry Analysis

Under the triple influence of economic downturn, policy restrictions, and foreign capital controls, the

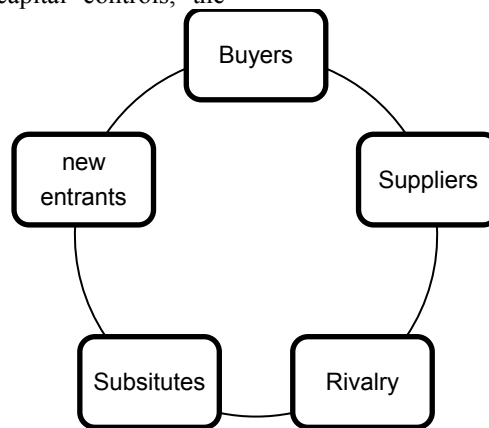


Figure 2. Porter's Five Forces Analysis

4.1. Threat of Buyers

When the products from the same industry are all available in the market, the business is facing the threat of buyers. Students have different tastes in the teaching methods, some prefer online teaching since the pandemic, which apparently is not the New Oriental's competitive advantage, so rather than choosing these new entrants in the online education, students are more willing to receive online education service from those experienced company like TAL. K-12 crackdown policy also stands

education industry has experienced problems with tight capital chains and difficulties in financing. New Oriental now has to enter new industries to obtain financing to maintain a healthy capital chain, which in turn feeds back the losses of its education business. And that is what exactly New Oriental is doing.

3.3. Social

China's long-standing one-child policy(i.e. people can only have one child in their family), coupled with the Chinese people's traditional opinion of "hoping for a child to become a dragon" (i.e. wishing for a child to succeed in careers, exams, etc.) The people's demand for educational resources is very strong, and many families even pay two-thirds of their assets to support their children's education. So in the author's opinion, in the long term, the demand for private education won't decrease.

3.4. Technological

During the time of the pandemic, many students were forced to study at home. With the live stream platform enabling the education company to expand at a lower cost, those education companies focused more on online education during the time of 2021 and had a success compared with other industries.

4. Porter's Five Forces

out to be a major threat to New Oriental's business Buyers in the Chinese market are strongly guided by the government's instructions, though the New Oriental tried to attract the buyers by discount, many customers immediately canceled New Oriental's service is afraid of government's restriction. The biggest threat to New Oriental is their education resources leaked through piracy. The piracy issue can only be controlled and solved by legislation. At the same time, because the Chinese government has implemented a family planning policy for a long time, many families have only one child,

and they will invest a lot in the child. As a result, the price strategy of education companies often performs less successfully than they expected. However, price-insensitive families go back to more expensive tutors since they believe that the more expensive the better the quality.

4.2. Threat of Suppliers

Suppliers of the education resources are teachers. Though their threat is limited, their cost is nonnegligible since the major cost of the New Oriental is the labor cost. The competition between the rivals leads to contention among the experienced teachers, which means the labor cost is increasing due to the fight to secure the teachers the need. In addition, because the expansion of New Oriental earlier was to open a large number of schools offline (often in the mall or near the school), the provider of venues has also become an important supplier of New Oriental. The outbreak of the epidemic and quarantine policy forced many public utilities to shut down, which caused huge damage to New Oriental. As a result, New Oriental had to shut down many of its teaching centers.

4.3. Threat of Rivalry

New Oriental's main rivals are its competitors, like TAL, Xue EDU, and Zhong Gong, in the education industry. TAL was severely damaged by the crackdown on K-12 private education, which is TAL's main business. Xue and Zhong Gong are focused on adult education, such as Chinese BAR or CICPA education, so their threats to New Oriental are inconspicuous. China's education market is segmented and oligopolistic. New Oriental has unparalleled advantages in the fields of English education and standardized test education (like GRE and TOFEL). In the author's opinion, there is no competitor that can substantially threaten New Oriental at this stage.

4.4. Threat of Substitutes

One of the threats of substitutes is illegal after-school classes held by teachers. The after-school class is a common phenomenon in China, teachers often charge their students for the extra lessons after school, though it is non-compliant due to Chinese law. However, it is almost impossible to be regulated by the Chinese government because of its small-scale operation and invisibility. According to the data, about 70 % of Chinese high school students take the after-school class while only approximately 40% of them receive the service from an education company like New Oriental. The main reason is that those individual teachers charge much less than those companies. What's more, the individual teachers just know their students better, thus those students learn to choose their own teacher rather than a stranger to teach them. Free online education resources

(often from piracy) are also a major substitute for New Oriental products. However, due to inadequate measures of controlling piracy, New Oriental company is unable to solve the piracy problem at this stage.

5. Conclusion

By analyzing New Oriental's strengths, weaknesses and opportunities, threats in the whole market, the strategies of transformation are clear and executable. Opportunities like online education and e-commerce can make full use of New Oriental's goodwill during the process of stepping into the brand new area. At the same time, New Oriental needs to be aware of the government's restrictions in the education area and its own debt. We conclude the following strategy for New Oriental's decision. (i) New Oriental's attempt to step into the e-commerce market backing by its own brand name and its live-streaming resource accumulating by online education can help the firm to find a way out of the difficulties of transforming. (ii) International expansion especially in areas like Hong Kong and other eastern Asian countries can avoid policy supervision and reduce risks of government control. Eventually, the expansion will provide more opportunities in foreign countries, like Korean and Japanese university entrance examination, which is hugely demanded in the education market in those countries.

There are still some limitations in this paper, such as not considering more market data and quantitative analysis models for analysis. In the future, we will further combine the data and use regression models to test the impact of New Oriental's transformation.

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