

# Financial Analysis of Education Industry under the Framework of Harvard Analysis — Take New Oriental Education & Technology Group as an Example

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**Abstract.** After the promulgation of the double reduction policy, New Oriental suffered a huge impact. Based on the financial statements of New Oriental in recent years, this paper makes a financial analysis of New Oriental. the Harvard analysis framework is used to analyze the financial situation of enterprises from four perspectives: strategy, accounting, finance and prospects. PEST analysis and SWOT analysis are used in strategic analysis. Through accounting analysis and financial analysis, since the impact of the double reduction policy, the solvency, profitability and operating capacity of enterprises are not good, but due to the timely transformation, these capabilities will show an upward trend in the future. And through the prospect analysis, it is concluded that New Oriental should develop new products in an all-round way and deeply tap the potential of carrying goods. This article can provide a reference for other education and training companies that want to transform.

**Keywords:** New Oriental, Harvard Analysis Framework, financial analysis.

## 1. Introduction

With the promulgation of the double reduction policy, a series of education industry institutions have been greatly affected. As an old education brand well known to the public, New Oriental has successfully transformed in the face of this impact. Since June 2022, New Oriental has completely transformed its e-commerce delivery business and closed its K12 core business. At present, many scholars in China have studied the impact of the double reduction policy on the education and training industry Huang studies the strategy and path of New Oriental transformation [1]. Chen conducts financial analysis on "good future" of similar companies [2].

This paper uses the Harvard Analysis Framework and selects New Oriental as a sample. Harvard analysis framework is a financial analysis framework proposed by three Harvard scholars, which combines quantitative analysis and qualitative analysis, and can effectively grasp the direction of financial analysis. It mainly includes strategic analysis, accounting analysis, financial analysis and prospect analysis [3].

## 2. Edu financial analysis based on Harvard Analysis Framework

### 2.1. Strategic analysis

#### 2.1.1 Macro environment analysis -PEST

##### (1) Political factors

The Chinese government's policies on the education industry have been encouraged and supported, which provides a good development environment for New Oriental and other educational institutions [4]. However, in 2021, the central government in order to reduce the pressure on students' schoolwork, off campus training institutions have been strictly supervised, which has had a great impact on the business of New Oriental [5]. Intellectual property protection is also an important factor, which can inspire New Oriental to innovate in educational content, teaching methods and technology applications. When the innovative achievements are effectively protected, New Oriental can obtain the competitive advantage and market share brought about by innovation, thus enhancing the

profitability of the company. As China has been constantly improving and developing the intellectual property protection law, it is beneficial to the development of New Oriental.

#### (2) Economic factors

In recent years, GDP grew rapidly, people's demand for education was also increasing. In particular, the rise of middle-class families, who have a higher demand for high-quality education services, has provided a broad market space for New Oriental [6]. But the same Sample is also facing risks, due to the impact of the epidemic, New Oriental was forced to suspend offline teaching activities, resulting in a serious impact on the company's main source of income. Offline teaching is one of the main traditional businesses of New Oriental. The suspension of offline teaching has made new Oriental lose a large number of face-to-face teaching opportunities, which has affected the company's revenue.

#### (3) Social factors

China's aging population and declining birthrate will have an impact on demand in the education industry. This may lead to a decline in demand for traditional K12 training businesses such as New Oriental and an increase in demand for adult education and vocational training. Because of the shift in people's ideas about education, the importance of education is also increasing. This provides greater room for educational institutions such as New Oriental to develop.

#### (4) Technology

With the popularity of the Internet and mobile Internet, online education has developed rapidly. New Oriental needs to seize this opportunity to strengthen the layout and investment of online education business. The development of artificial intelligence technology has brought new opportunities and challenges to the education industry. New Oriental can combine artificial intelligence with traditional education to improve the quality and efficiency of teaching.

### 2.1.2 Micro environment analysis -SWOT

#### (1) Strengths

As a well-known education brand in China [7], New Oriental has many years of education experience and good reputation, provides high-quality education services for students and parents, and has a huge team of teachers and high-quality teaching resources [8]. It has 1063 teaching points nationwide, covering a number of disciplines and fields, which can meet the needs of different students.

#### (2) Weaknesses

Although New Oriental has achieved a combination of online and offline, its main business still relies on offline teaching. During the epidemic, the suspension of offline teaching had a serious impact on the business of New Oriental. Although New Oriental has accelerated the pace of online transformation, it still needs to face technical, human and financial challenges in the face of fierce competition in the online education market. New Oriental's teaching content in some disciplines is homogeneous with that of other educational institutions, and lacks unique competitive advantages.

#### (3) Opportunities

With the popularization of the Internet and the increasing demand for education, the online education market shows a rapid growth trend. Edu can seize this opportunity to further expand its online business. Edu has a certain international business foundation, which can strengthen cooperation with foreign educational institutions and provide students with more abundant international educational resources. And the use of bilingual live broadcasting, online business has a strong competitiveness

#### (4) Threats

Government policy changes in the education industry such as the "double reduction" policy are major threats. New Oriental needs to pay close attention to change strategies. In the process of using technological innovation to improve the quality of teaching, it is also facing technological risks, such as data leakage, system paralysis and so on. New Oriental needs to strengthen technical support and risk management to ensure the stable operation of its business. The online education market is highly

competitive, and other educational institutions are expanding their online business. New Oriental needs to maintain its competitive advantage, constantly innovate and improve its service quality.

## 2.2. Accounting analysis

### 2.2.1 Main business income

From Table 1, it can be seen that before 2021, the total operating income of New Oriental showed a growth trend and reached a peak in that year, but due to the landing of the "double reduction" policy in 2021, New Oriental has been greatly impacted, and the total operating income has declined significantly. Educational services and test preparation programs make up a significant portion, accounting for about 85 before 2022. With the transformation of New Oriental, it has begun to develop the field of online live broadcasting arrival. Therefore, the revenue of private label products and livestreaming e-economy commerce and other service has gradually expanded, so that the proportion of New Oriental in 2023 is only 60.89 percent.

**Table 1.** New Oriental's operating income from 2019 to 2023

Year	Education Service and Test preparation course	Private Label Products and livestreaming E-economy commerce and other service	Overseas Study Consulting Services	Others & Adjustments	Total Income
2019	26.06	\	\	4.91	30.96
2020	30.41	\	\	5.38	35.79
2021	36.67	2.11	\	3.99	42.77
2022	25.35	1.37	3.26	1.07	31.05
2023	18.25	6.47	3.55	1.71	29.98

### 2.2.2 Main business cost

From table 2, we can see that the total operating cost and total operating income show a consistent trend of change, and reach a peak in 2021. The reason is that after the closure of numerous teaching points and the resignation of many employees due to the impact of the 'double reduction policy', the corresponding costs such as teaching point rental fees and employee wages will also decrease, which will increase first and then decrease.

**Table 2.** New Oriental's Cost of main business from 2019 to 2023

Year	Main business cost
2019	13.76
2020	15.89
2021	20.37
2022	17.54
2023	14.09

### 2.2.3 Net profit

**Table 3.** New Oriental's Gross profit and net profit from 2018 to 2022

Year	Gross profit	Net profit
2018	13.82	2.97
2019	17.20	2.28
2020	19.90	3.55
2021	22.40	2.30
2022	13.51	-12.20
2023	15.88	2.35

According to table 3, gross profit is in a growth trend before 2022. Net profit began to decline in 2021 and suffered a huge loss in 2022. As the double reduction policy was proposed in July 2021, and the statistical time of New Oriental's financial statements is May every year, the net profit in 2021

only showed a small decline, which reflected a huge impact in 2022 [9]. In June 2022, New Oriental transformed to online business, which timely curbed the current situation of losses and profit returns to normal in 2023.

### 2.3. Financial analysis

#### 2.3.1 Solvency analysis

According to table 4, the liquidity ratio of New Oriental has been less than twice in the past five years except 2022, indicating that the liquidity of enterprises is weak, and enterprises need to pay attention to this problem in time, so as not to deal with uncertain emergencies in time due to the low loss buffer capacity. From the perspective of quick ratio, the quick ratio of New Oriental in the past five years is between 1-2 except 2022, indicating that enterprises have better debt repayment ability. In 2022, the current ratio and quick ratio of New Oriental increased significantly, which was due to New Oriental shutting down part of its education business, resulting in a backlog of inventory.

The asset liability ratio generally showed an increasing trend before 2022. On the one hand, its continuous expansion of business led to an increase in accounts payable and long-term liabilities. On the other hand, the impact of covid-19 on the overall economic environment led to a slowdown in revenue growth. The sharp decline in 2022 shows that the long-term solvency of assets has increased. In terms of property rights ratio, New Oriental property rights ratio has been above 0.5 in the past five years, indicating that the basic financial structure of New Oriental has the characteristics of high returns and high risks. In 2022, the property rights ratio declined sharply due to the large loss of New Oriental in 2021 due to the "double reduction" policy. Reducing the property rights ratio index will help to alleviate the interest burden and thus reduce risk losses.

**Table 4.** New Oriental's Solvency indicators from 2019 to 2023

Year	Current ratio	Quick ratio	Asset liability ratio	Equity ratio
2019	1.73	1.71	45.66%	0.90
2020	1.52	1.50	56.23%	1.35
2021	1.89	1.88	50.57%	1.04
2022	2.62	2.60	37.14%	0.60
2023	1.96	1.94	40.32%	0.72

#### 2.3.2 Profitability analysis

According to table 5, the gross profit margin of sales has been at a stable level, indicating that the profitability of New Oriental is relatively stable. Edu's return on net assets and net interest rate on sales showed an overall downward trend before 2022. In 2022, New Oriental suffered a large loss due to the forced transformation of the "double reduction" policy, showing a downward trend in 2023. In the future, New Oriental should focus on increasing business income, controlling business costs, improving business profits, and then improving business capacity.

**Table 5.** New Oriental's Profitability indicators from 2019 to 2023

Year	Return on equity	Gross profit margin on sales	Net profit margin on sales
2019	10.94	55.55	7.36
2020	16.23	55.60	9.92
2021	8.75	52.37	5.38
2022	-27.56	43.51	-39.30
2023	4.85	52.98	7.85

#### 2.3.3 Capacity analysis

According to table 6, the turnover days of accounts receivable continue to rise, and the turnover rate of accounts receivable continues to decline, which shows that the liquidity of New Oriental accounts receivable has weakened and the management efficiency has declined. The total asset turnover days showed an increasing trend, and the total asset turnover rate showed a downward trend,

indicating that the operation efficiency of New Oriental assets was low, and the large investment in assets did not bring good revenue results. Overall, the overall operating capacity of New Oriental needs to be enhanced.

**Table 6.** New Oriental's Operating capacity indicators from 2019 to 2023

Year	Accounts receivable turnover rate (Times)	total asset turnover rate (Times)	accounts receivable turnover days	total asset turnover days
2019	955.85	0.72	0.38	500
2020	957.12	0.64	0.38	562.5
2021	665.87	0.51	0.54	705.9
2022	247.46	0.38	1.45	947.4
2023	121.11	0.48	2.97	750

## 2.4. Prospect analysis

In the field of education, New Oriental can continue to emphasize the professionalism of New Oriental in the field of training, strengthen brand value, closely link New Oriental brand with professional fields, and develop new products in an all-round way, so that its industry can cover market needs in an all-round way as much as possible. At the same time, in the field of live broadcasting, we can continue to adhere to the new mode of bilingual live broadcasting with goods, deeply tap the potential of live broadcasting with goods, strengthen the cultivation of live broadcasting subjects, cultivate and develop the original teacher resources into talents in the field of live broadcasting with intention, accumulate talent resources for live broadcasting with goods, and strengthen marketing ability and market mastery [10].

## 3. Conclusion

This paper studies the development of New Oriental Group in recent years, uses the Harvard analysis framework, carries out financial analysis on it through four aspects: strategy, accounting information, financial data and development prospects, and obtains that New Oriental has sustained losses and weakened solvency in the face of the impact of the "double reduction" policy, but there is a turning trend through timely transformation. This study can provide reference for other education groups facing financial crisis. This study lacks the comparison between New Oriental's financial data and other education industries, and can introduce comparative analysis of the advantages and disadvantages of New Oriental's transformation in the future.

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