

Review of Business Models of Online Education in China's Private Educational Institutions

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Abstract. There has never been as much interest in business models as there is today. A good business model is very important not only for a company but also for an educational institution. Based on the literatures review and the analyses of the education industry condition in China, this paper proposed a new business model just for online educational institution. In addition, two cases of China's top 2 private educational institutions were analyzed to explain and prove the effectiveness of the new model. Finally, four possible trends of business model for online education were discussed for further research.

Introduction

Nowadays, the development of technology has created a revolution in education field. Existing traditional school based, formalized learning formats are unable to accommodate specific new learning needs. Hence, the online education, which can allow the students to study in any place at any time, is no longer a choice but a necessity. In recent years, China's online education industry has expanded at a rate of around 20%, with the market worth of RMB 150.7 billion in 2016, a year-on-year growth of 23% [1]. Facing the expanding market of online education, the private educational institutions need to improve their business models more suitable for the demand of development. This paper is based on a literature review on the research of business models in online education field, analyze the problems existed, and aims to propose a new business model just for online education in China.

Literature Review

Business model is a management concept which describes the rationale of how an organization creates, delivers, and captures value [2]. It contains nine basic building blocks: customer segments (CS), value propositions (VP), channels (CH), customer relationships (CR), revenue streams (R\$), key resources (KR), key activities (KA), key partnerships (KP) and cost structure (C\$) [2]. The nine blocks cover the four main areas of a business: customers, offer, infrastructure and financial viability show that how a company intends to make money.

And in the education area, although there has been a long history of distance education, the creation of online education occurred just over a decade and a half ago. Early course delivery via the web had started by 1994 [3]. Since that time, online education has slowly but steadily grown in popularity. To the point that in the fall of 2010, almost one-third of US postsecondary students were taking at least one course online [4]. Then in 2012, a new form called Mooc (massive open online courses) appeared, and became the most typical business model of online education in Europe. The analyzed literatures in this paper cover the section of the Mocc's business model on different building blocks: while information about the value proposition and customer segments could be found in almost every analyzed article, no direct or only very little information about key partners, channels, or cost structure could be identified [5].

In 2017, the number of internet users in China has been 772 million, with the popularity rate at 55.8%, which has exceeded the world's average level by 4.1% [6]. Meanwhile, 97.5% of Chinese internet users are mobile netizens [6], meaning that people's living habits are growingly based on

mobile clients, which provide a foundation for mobile online education [7]. As the two-child policy is implemented, the number of children in K12 education age group will increase steadily and market demand will further expand. According to the analyses above, the business model of online education should be exactly suitable for China's national conditions. There are several ways to classify the business models of online education for local private educational institutions. And the most mentioned method in the Chinese literatures researched for this paper is to divide the business models into four types: B2C, C2C, B2B2C and O2O. This kind of classification shows that how an institution can provide its curricula and services to the students or customers. Although this method mentioned several building blocks of traditional business model, such as customer segments, channels and customer relationships, it only classified from the provider's and the customer's point of view. Without paying enough attention to the other blocks of the business model, this kind of classification could not describe the whole circumstance of an educational institution. These limitations would weaken the effect of a business model. In order to solve these problems, a new kind of business model just for online education institutions should be proposed.

A New Business Model for Online Education Institution

According to the particularity of online education industry condition in China, the business model for private educational institution could be divided into four components, which is shown in Figure 1, and the following analysis will explain the details of these components step by step.

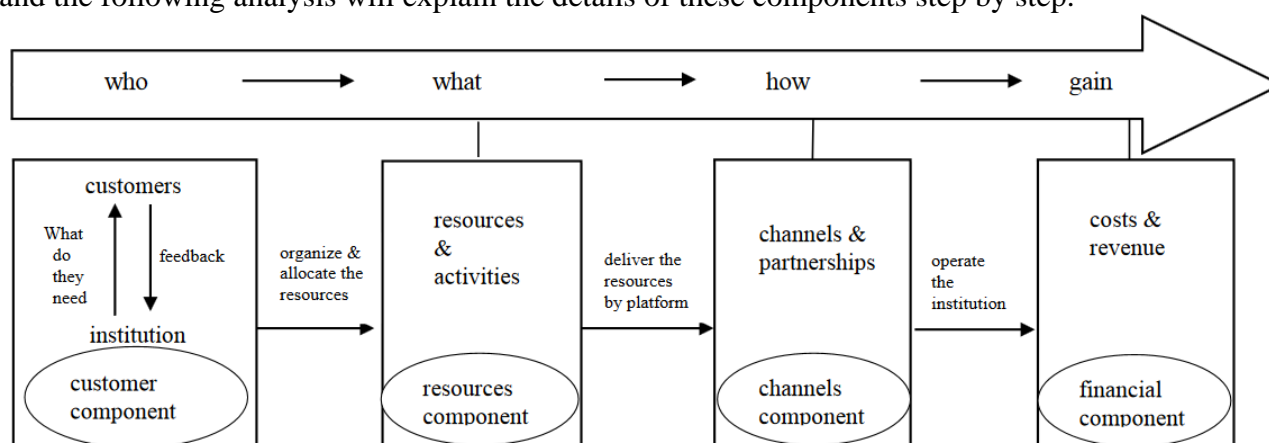


Figure 1. Four components of the new business model for online education institution

To understand the new business model, the four components can be described by four steps: first, who does the private educational institution provide curriculum and service to? Second, what resources do they have and what content could they offer? Then, how to deliver these curricula or services to the customers? And at last, what can an institution gain from the operation process?

Component 1: customer component (CC). The answer of the first question contains three elements: (1) The customers for China's private educational institution can be all age from kindergarten to adult. But for online education, the most important customer segments maybe the K12 students and the adult students who wanted to get further education, pass the exams for overseas universities, or learn the skills for their career needs. (2) Each of these customers mentioned above has its own requirements and the offered service should be adapted to each of them. Find out what they value, what IT services they need, that would be the value propositions of online education for private institution. (3) The online education institutions should establish customer feedback mechanism to maintain customer relationships. They will need to be very clear about what they are offering to customers and how they measure the results.

Component 2: resources component (RC). Knowing the main customer segments and what they need, the institution should on one hand organize all of its resources, include hardware resources such as infrastructure components, platform, and storage, software resources, brand awareness and support staff. Additionally, for educational institutions, curriculum and teaching resources are further key

resources. On the other hand, allocate and provide these key resources to the prospective customers through its key activities. Considering the private educational institutions in China, the key activities for online education are courses support, training program support, curriculum development, infrastructure maintenance and community service support.

Component 3: channels component (CH). For online education, there are various channels through which contacts to prospective customers are established. Including online broadcast live, video/audio download and replay, video/audio program order, and also the interactive system, such as community discussion, chat rooms and web-based forums. These channels can be provided by partner organizations or the institution itself partly. Since the main delivery channel for online education is the internet, the key partners would be the network operators and the software suppliers, who provide network platform and technical support for the online teaching. Nowadays, the popularity of Wi-Fi and 4G wireless network has building a good fundamental environment. In addition, despite a high concentration of online education in PC, mobile-client has the advantage of enabling users to maximize fragmented time to learn. The occurrence of education app is a new trend for this demand. Therefore, a quality-assurance app developer will be a good potential co-partner in future.

Component 4: financial component (FC). Although the online education has lower the institution's cost comparing with the traditional education mode, the private educational institution is a business organization and the operating process is for profit. Considering the main costs of a private institution for online education, the basic cost structure can be derived from the key resources and activities which mentioned above in component 3, leading to costs such as hardware costs, software costs, platform operating costs, advertisement costs, various costs for the development of the teaching resources, taxes and personnel costs. Since the factor influencing the financial component of an educational institution's business model, is not only the cost structure, but also the revenue streams. Generally, there are four revenue streams for an online educational institution: (1) Usage fees, meaning pay-per-use, where the customer pays based on the time in which the service was used or for the teaching units. (2) Subscription fees, where the customer pays on an agreed fee per month or per teaching period and can use the course and service as often and as much as needed. (3) Licensing fees, the expense for intellectual property right, means the customers can use all the data in the database unless they had getting licenses from the institutions. (4) Advertising revenue, the private educational institution can provide the advertising service for their partners or other education-related companies via their own education platforms, and get the advertising revenues from them. So far, most of Chinese private educational institutions are facing ongoing financial challenges in their online education part, and how to ensure sustainability of these institutions would be a problem to solve in the future.

Two Cases of China's Top 2 Private Educational Institutions Based on the New Business Model for Online Education

(1) New Oriental Education & Technology Group

As the largest provider of private educational services in China, New Oriental was founded in 1993, with its value proposition is to inspire Chinese students of all ages to improve their lives and expand their horizons through a lifelong commitment to learning. Comparing with the new business model, for customer component, it has had over 33.5 million student enrollments until November 30, 2017, including approximately 19.5 million registered users for its online education [8].

For the resources component, in the fiscal year ended May 31, 2017, New Oriental offered approximately 4,600 new online courses, including language training courses, test preparation courses, professional certification courses, and business knowledge and skills training courses in the areas of accounting, legal, management and others. As a supplement to online courses, it also offers many online study services, including course planning, testing, composition correcting and one-on-one tutoring. Furthermore, it also offers enterprise clients customized training services through its Koolearn.com website [9].

And how about the channel component for New Oriental? As the biggest online educational institution in China, New Oriental offers online education programs on its own website www.koolearn.com and www.koo.cn. In the fiscal year ended May 31, 2017, it had approximately 855,000 users that paid for additional access to its specialized education programs. These users purchase pre-paid cards that give them the right to use New Oriental's paid content for a specific period of time or for specific courses.

Since the New Oriental has a very comprehensive range of educational services and products, the financial structure is also complicated. As its 2017 annual report shows, the main revenues are from educational programs and services, books and other incomes such as income of investment. And the main costs include selling and marketing costs, general and administrative costs, and income taxes. From the financial table of New Oriental, the exact financial numbers for only online education cannot be got, and a further research could be do in future if necessary.

New Oriental is a typical case which can be exactly explained by this new business model. And in future, as it continue to grow in size, expand program, service and product offerings, innovating its current business model would be very important. A suggestion is that to maintain and enhance the "New Oriental" brand, making it more significant to the success of its business.

(2) Tomorrow Advancing Life (TAL) Education Group

Another case of this new business model is Tomorrow Advancing Life (TAL) Education Group, a leading education and technology enterprise in China. It was founded in 2005, with its core development goals of being technology driven, talent-centered, and quality focused [10].

The customer component of TAL's business model is shown like this: the main customers are primary and middle school students. In the end of 2017, TAL has 2.3 million students in 42 cities all over China, with more than 18 million students partaking in their quality online education resources. Moreover, the jzb.com sub-brand of TAL is an Internet education platform with expansive coverage and high credibility in China with 31 million monthly active users.

TAL began to offer online courses in 2010 through www.xueersi.com. It offers online courses on mathematics, English, Chinese, physics, chemistry, biology, and other subjects as its key resources. These online courses enable TAL to leverage its proprietary curricula and course materials and high quality teachers to target markets beyond the reach of physical network.

TAL has a long history in channels component of its business model. In the past, TAL's online courses were mostly in the format of pre-recorded classes. In March 2015, it launched a new format which was further developed into live-broadcasting classes starting from October 2015. Now it has become the principal format of TAL's online courses. By offering live broadcasting classes, teachers can adjust the pace and content of each class according to student performance and reaction. And also TAL conduct in-class examination and have dedicated tutoring teachers who focus on the correction of examinations and post-exam tutoring for students. In this way, students can receive timely and tailored feedback on their learning [11].

In TAL's 2017 annual report, the financial component with the exact number of its online education is still not mentioned, the same as New Oriental. In that case, this component of its business model is not be discussed in this paper.

Considering the different situation of TAL's online education, the innovation of its business model should be focus on four aspects: the expanding of customer scale and the cooperating with other education-related organization.

Conclusion

A business model is an organization's blue-print which leads to the development and innovation of the organization. This paper has reviewed and synthesized the extant literatures on business model of online education. Based on the analysis of China's online education condition, a new business model was proposed just for Chinese private educational institutions to operate their online education business. Furthermore, the analysis of the literatures and the cases, considering current trends in

technology and education, revealed possible areas of further research on the business model of online education:

(1) Extending the coverage of online education in case to reduce even eliminate the gap between urban and rural areas.

(2) Hiring more qualified teachers and creating more effective teaching approach which can lead to different processes for designing, delivering, and updating courses--processes that just don't exist in traditional education.

(3) Designing interactive teaching methods and gamification. One possible method is the integration of teaching cases, which are realistic stories allowing the reader to put himself or herself in the situation of another person. Another possible method would be gamification [5].

(4) "Industrial convergence, school-enterprise cooperation" which was suggested on the thirteenth national people's congress of people's Republic of China, meaning that an integrated design team should be founded. Which will typically include multimedia experts, quality- assurance people, network engineer and professional teachers. With the cooperation, a more competitive business model for online education will be built.

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