

# ***Impact of COVID-19 on Cost and Profitability***

## ***---Taking the Service Agency for Studying Abroad as an Example***

**Jiang Yukun<sup>1,a,\*</sup>**

<sup>1</sup>*Nanjing Audit University, Nanjing 211815, China*

*a. jiangyk4430@foxmail.com*

*\*corresponding author*

**Abstract:** After the outbreak of COVID-19 since the beginning of 2020, people were more cautious about the decision to study abroad. Objectively, it was difficult for people to get visas and buy air tickets because of the inconvenience of going abroad caused by the fuse of flights. Subjectively, people were worried about COVID-19 infection, so they tried to avoid leaving their country. As an intermediary, the business mode and the profit model of service agencies for studying abroad were also affected to some degree. In order to figure out how the costs and profitability changes according to COVID-19, many researchers had done some investigations on students who are prone to study abroad. From the perspective of economics, the costs of agencies were found to be rising significantly due to the uncertainty of COVID-19. It included fixed cost, sunk cost, opportunity cost and variable cost. But from another perspective, if an agency could adapt to the new situation as quickly as possible and grasp the new opportunities to offer a wider range of services, it might greatly increase its profits instead. Faced with this, agencies should focus on improving service quality and constantly expanding new service, such as language courses, career planning and internship training. Through cooperation with more high-level universities and famous enterprises at home and abroad, they could provide customers with more comprehensive services, as well as gain more profits.

**Keywords:** cost and profitability, COVID-19, study abroad

## **1. Introduction**

Since the Reform and Opening Up, a number of Chinese students have chosen to go to international universities for further study. On October 22, 2021, the plenary meeting of the 22nd China Annual Conference on International Education was held at the Beijing International Conference Center. Huai Jinpeng, Minister of education, delivered an opening speech: continue to promote the opening up of high-level education, continue to introduce high-quality educational resources, continue to support overseas study, and improve the quality of studying in China [1]. The policy of "supporting studying abroad, encouraging returning home, coming and going freely and making a difference" has been our country's new policy of studying abroad for many years. It should be implemented consistently in the new era. According to statistics, the number has been rising and reached a new high before 2020.

This results in the emergence of a new industry---the service agency for studying abroad, which aims at using the information gap to help students apply for overseas universities, providing relevant

consulting services and helping finish the complicated application procedures. The target customers of such agencies are Chinese senior high school students and college students mainly. They can only turn to agencies to complete the application procedures due to their heavy academic burden or lack of English ability. Therefore, the agency collects service fees during the whole application process as revenue.

From the perspective of enterprise development and economic benefits, cost and profitability can partly decide the survival of an enterprise or an industry. At present, a large number of studies have shown that service agencies for studying abroad have been impacted by the epidemic, and quite a few researchers believe that service agencies for studying abroad have entered the cold winter.

However, from a dialectical point of view, existing research mainly focuses on the negative impact of COVID-19 on these agencies, while does not see new business opportunities. At the same time, there is a lack of economic perspective on the changes in cost and profitability.

This paper focuses on analyzing the impact of COVID-19 on the cost and profitability of service agencies for studying abroad from an economic perspective, and looks at both the positive and negative impacts of emergencies, then put forward suggestions from a more objective perspective to help relevant enterprises find transformation opportunities in the post epidemic era.

## 2. Literature Review

### 2.1. Literature Before 2020

The contribution made by service agencies for studying abroad in China cannot be ignored. There are many previous studies pointing out the crucial role played by these agencies. Most of these documents were published before 2020. The study on the sustainable development and trend of China's policy of self-funded overseas studying [2] focuses on the policy of studying abroad, and explains the reasons for the current "study abroad fever" from the perspective of policy changes. At the same time, the author points out that studying abroad not only has a tendency for popularization, but also has a tendency to a younger age. Many junior and senior high school students choose to study abroad, which is closely related to the change in study abroad policy and people's education concept. However, the author also suggests that the proportion of high-end talents returning to China is still low.

According to Wang Wei and Qin Yunyun [3], with self-funded overseas studying becoming more and more common, agencies provide the impetus for social and economic development, bridge and pave the way for applicants to expand their study abroad experience, and help self-funded applicants choose the right school and major for their development. The article suggested that service agencies for studying abroad should change from education operators to education service providers, actively explore ways of cooperation with colleges and universities, and "de commercialize" overseas study services, which reflects the beautiful vision of the industry before the outbreak of COVID-19.

### 2.2. Literature after 2020

After 2020, the studies cover two aspects: one is the impact of COVID-19 on the economic situation or profitability of enterprises, and the other is the impact of COVID-19 on studying abroad. Ren San [4], analyzes from short-term and long-term perspectives, and pointed out that COVID-19 had the most obvious impact on the service agency for studying abroad, which needed a lot of investment to recruit the consultants, pay rent and provide service. According to the article On the development thinking and solutions of the internationalization of higher education in the post-pandemic [5], some Western countries have issued policies to restrict the signing of foreign students, which has sharply reduced the customer group of these agencies. Despite the restrictions, Lan Lijiao and Lu Xiaodong [6] believe that China's top innovative talents still need to "go out". In the article, they take the

academicians of the Chinese Academy of Sciences who graduated from the university after 1972 as the research samples, analyze their overseas study experience during their growth by using the resume analysis method and the biographical research method, and further point out that the overseas study experience promotes the scientific research and innovation ability of top talents. Xing [7], believes that the outbreak of COVID-19, the uncertain and unbalanced factors of the world economic recovery have increased significantly. The operating cost of the enterprise increased and the operating profit decreased accordingly.

### **2.3. Literature Summary**

In this case, the book Managerial Economics: a problem-solving approach [8] offers a suggestion for enterprise management---they should reduce the variable cost when the fixed cost is uncontrollable. Additionally, the book Principles of Microeconomics by Mankiw [9] demonstrates that except explicit costs, there are also some implicit costs like opportunity costs.

Generally speaking, these previous studies analyze the negative impact of COVID-19 on costs and profits thoroughly and comprehensively. However, they ignore that COVID-19 might also promote the reform and innovation of agencies. Moreover, previous studies fail to put forward suggestions according to the profit model of service agencies for studying abroad.

## **3. COVID-19 Do Have a Negative Influence on Profitability**

When analyzing the change of costs of an enterprise in a period, it is a good choice to focus on the fixed cost and variable cost of the enterprise.

### **3.1. Fixed Costs**

When it comes to the service agency for studying abroad, the fixed costs which include the rent and investment to recruit the consultants are still large during COVID-19.

For one thing, like most companies, there should be a fixed office location, which means service agencies for studying abroad have to invest some money in rent. The larger the agency, the more employees and the more requirements for a larger space should be satisfied.

For another, it is difficult for the agency to reduce the costs of recruiting consultants and employees. Since the service they provide requires true communication with customers, which cannot and should not be simply replaced by artificial intelligence. The reason is that this job is somewhat like teaching. During the service process, the customers may generate various puzzles and problems. What the consultants should do is always focus on the emotion of customers and answer their questions as soon as possible, otherwise, the customers may not be satisfied.

Moreover, the service cycle may be as long as one to four years, which means the agency should ensure its normal operation during the whole process. It also requires a huge amount of fixed costs.

### **3.2. Variable Costs**

The variable costs have also increased a lot due to COVID-19. For example, in order to attract customers, a discount is added and the profits are negatively affected. Since there are fewer people who would like to study abroad during COVID-19, agencies have to find a way to attract a small number of potential customers.

In the article Evaluating discounts as a dimension of customer behavior analysis [10], the author points out that increasing competition between companies led to the rise of customer status, so discounts become an effective approach to attracting customers.

In addition, because of COVID-19, some customers terminate their contracts suddenly and the agency has to return the money collected before. It seems that there is no “visible loss” in this process. However, some agencies may have invested the money collected previously in their operation and publicity. Therefore, it will be difficult for the agency to return the cash to customers immediately. In order to maintain a social image of responsibility and honesty, the agency only cut back on employees' wages.

Lastly, policy changes quickly and sunk costs increased. Due to the special period of COVID-19, various countries in various regions have issued different policies to restrict the entry of foreigners. In order to reduce the risk of being infected with COVID-19, more and more universities tend to give places to local students rather than foreign students. According to Mankiw, the term “sunk cost” refers to a cost that has already been committed but cannot be recovered. This sunk cost includes time, effort and some other tangible or intangible costs. Sometimes, agencies may have paid a lot of costs and invested manpower to serve customers, but finally, the application fails due to policy changes. As the saying goes, plans can't keep up with changes. So they have to compensate the customer for a certain amount, maybe 50% to 100% of the service fee, which is really a great loss.

## **4. COVID-19 Has Also Provided Some New Opportunities**

### **4.1. Large Institutions Usher in the Trend of Mergers**

Since 2020, many small agencies have closed down due to different reasons like lack of customers or lack of investment. So, large agencies have fewer competitors and more customers, which is great news. That is why the CEO of XDF Vision Overseas, a large service agency for studying abroad, proposes that “COVID-19 will indeed affect people who intend to study abroad this year and in the next one or two years. But we are still optimistic about the situation of studying abroad in the following two years.” [11]

Meanwhile, employees from bankrupt agencies are also likely to switch jobs to large agencies which are more stable in the face of economic shocks. They will bring more crucial industry information and more loyal customers to large agencies, which further expands the income source of the agency.

### **4.2. There is No Harm in Telecommuting**

Besides, telecommuting has little impact on the application for studying abroad since most of the work is done online. Agencies can quickly adapt to online working. For example, collecting personal background information, such as grade, major and GPA, can be done through APP or online platform. Customer service can be done through WeChat or mobile phone, and face-to-face consultation is not necessarily required. Therefore, unlike other industries, such as the manufacturing or catering industry, service agencies for studying abroad have lower requirements for office conditions. Even if COVID-19 is serious and people have to work online at home, their work efficiency will not be greatly affected.

What's more, new services, such as online training courses and remote internships, bring extra profits to enterprises. In order to apply to a top university, students are often required to have rich internship experience. During COVID-19, people leaving the province may face isolation, which will bring great inconvenience to everyone. In view of this, many agencies choose to cooperate with world-famous universities to carry out distance teaching, such as online summer schools and online projects. There are also some agencies that cooperate with big companies, especially transnational corporations, to help customers gain internship experience through online training and remote internship. Taking the British online distance education as an example, the successful school-enterprise cooperation model can provide innovative education for students and profits for agencies.

## **5. Ways to “Survive” During COVID-19**

Here are two approaches for the agency to survive or even expand the profit scale during COVID-19. One this to broaden the scope of services, from merely consulting to cooperating with famous universities and enterprises. Another is to broaden the customer base. That is providing consulting service for foreigners who would like to further study in China or work in China.

### **5.1. Broaden the Scope of Services**

After expanding the scope of services, the agency can gain extra profits by offering an online programme to customers. For instance, XDF has cooperation with many professors at the University of Cambridge, Columbia University and some other universities. After buying the courses provided by these professors, students have an opportunity to participate in the courses of top universities in the world.

At the same time, the agencies can also employ excellent IELTS and TOEFL tutors at home and abroad to provide language courses for customers who are willing to study abroad. It is widely acknowledged that language scores play an indispensable role in application for students who are qualified to enter international universities. According to a principle of economics, once a store gains the trust of customers, then customers will become more loyal and more inclined to buy other goods and services of this store. Usually, a previous customer can enjoy discounts with the same agency too. For one thing, it brings extra income to the agency. For another, it also provides convenience for many customers, since they do not have to spend some time looking for the courses.

### **5.2. Broaden the Scope of Customers**

Nowadays, with the rapid development of China's higher education, the scope and scale of enrollment of foreign students in China have been gradually extended. Many international students are willing to study in China, but they may have some difficulties in understanding Chinese policies and learning Chinese language. Grasping this opportunity, the agency can switch target customers from just domestic students to international students and provide consulting services for all of them.

Furthermore, there are still many students staying abroad. They went abroad before 2020, but it is hard for them to return home in recent years due to COVID-19. Service agencies for studying abroad can seize this opportunity to provide entrepreneurship and employment guidance for these overseas returnees. At present, some large agencies, especially those with branches overseas, have begun to offer overseas services and expand overseas business opportunities. For instance, pick-up services, rental services and life guidance for overseas students. It is safe to say that there are still several ways to gain profits that agencies never thought of before.

## **6. Conclusion**

There is no denying that COVID-19 will bring some obstacles. It increases risk and uncertainty, as well as reduces existing and potential customers. This may leave the agency in a situation where its revenue cannot support the operation of the business. If an agency has trouble making ends meet, it is not surprising that it fails to cater to the customers' needs. But the impact of COVID-19 on cost and profitability cannot be analyzed only from a negative perspective. It also promotes the transformation, reform, trade-offs and innovation of agencies. Faced with this, the agency should expand their business scope in a bid to make up for the losses caused by COVID-19. Only when companies attach due weight to how to expand new businesses, rather than how to save costs merely, can they calmly deal with changes during COVID-19. This paper provides guidance and suggestions

for the future business model of service agencies for study abroad and lays a foundation for the development of overseas study in the new era.

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