

Research on Financial Strategy of Retail Enterprises under Asset-light Operation Mode: A Case Study of SUNING.COM

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Abstract: The advancement of science and technology and the growth of economy provide enterprises with opportunities as well as challenges. Enterprises are also forced to make corresponding strategic adjustments after changes in the market environment. When enterprises adjust their overall strategy, they will inevitably require corresponding changes in financial strategies. In this paper, we select Suning.com, a typical asset-light retail leader, as a case enterprise. We observe that there are some problems in the implementation of the financial strategy by describing the status of its financial strategy, and finally propose suggestions for the existing problems in order to provide reference for related enterprises.

Keywords: asset-light operation; financial strategy; retail enterprise; SUNING.COM

1. Introduction

With the impact of the “Internet plus” trend, the operating modes of some enterprises have been unable to meet the development of modern social economy. The enterprises are paying more attention to their industrial value chains, thus, the asset-light operation mode as a new operation strategic arrangement has also received more attention.[1] In the domestic retail industry, the development of the “Internet plus traditional household appliance retail” industry is the most rapid. The main reason is that their transformations are mostly accompanied by the transformation of asset-light operation mode. At the same time, integrating the internal and external resources is the key to the successful transformation of enterprises.[2,3] In Chinese mainland, Suning.com is the earliest and typical O2O transformation enterprise in the traditional retail industry. However, according to the current operating conditions of Suning.com, we can find that there are still some problems in the selection and implementation of financial strategies. The study of this case is helpful to provide some references for the development of retail industry enterprises. Therefore, based on the implementation of Suning.com’s financial strategy, this paper analyzes its financial strategy issues, and explores how retail

enterprises can better optimize their financial strategies in the process of enterprise transformation and development.

2. SUNING.COM’s Financial Strategy Status under the Asset-light Operation Model

2.1. Brief Introduction of SUNING.COM

Suning.com was founded on December 26, 1990, formerly known as Suning Appliance Co., Ltd., and its business scope includes traditional household appliances, consumer electronics, department stores and other comprehensive categories. It was listed on Shenzhen Stock Exchange (002024) in July 2004, and officially renamed SUNING COMMERCE GROUP CO., LTD. in February 2013. Suning Cloud Store also began to be promoted and constructed in 2015, and upgraded the brand name of “SUNING.COM” to the enterprise name in January 2018.

By 2019, Suning.com’s full-scene offline network will cover the whole country, and enter the global Fortune 500 list for many times. In March 2020, Suning.com announced its 2019 performance bulletin, and its total operating revenue increased by 10.35 percent year-on-year to 270.315 billion yuan.

2.2. SUNING.COM’s Financial Strategy Status

2.2.1. Investment strategy

As an asset-light enterprise, Suning.com’s investment strategy tends to expansion and diversification. Suning.com vigorously promotes the continuous optimization of online platforms, the continuous improvement of offline chain stores and the expansion of logistics to improve the enterprise’s operational performance. For example, in order to attract customers by relying on Big Smart Cloud and experience services, a lot of investment funds quickly flowed to Suning small Store and Shanghai Dia Tiantian Convenience Store. Therefore, the number of Suning small stores and Dia Tiantian self-operated stores has grown rapidly, reaching 1,632 and 112 respectively by 2018. Suning.com has made offline investment an important option in recent years, when other competitors are widely deployed online, as shown in Table 1.

Table 1. Distribution of business types of Suning.com. (Unit: household, ten thousand square meters)

Business Format	Quantity	Area	Area Ratio
Comprehensive specialty store	2,105	530.19	79.59%
Maternal and infant shops	157	20.84	3.13%
Supermarket	8	2.02	0.30%
Suning small Store	4,177	61.92	9.29%
Direct Store	2,368	51.24	7.69%
Total	8,815	666.21	100.00%

The strategy of simultaneous development of online and offline is bound to accelerate the investment and construction, so Suning.com conducts mergers and acquisitions to meet the diversified development strategy. Suning.com's long-term equity investment projects are as follows: the enterprise acquired Japan's LAOX Co., Ltd.,

"Red Baby", PPTV, and "Manzuo.com" respectively from 2011 to 2014; Suning.com increased its shareholding in PPTV for the second time by 20% in 2015, forming a business combination under different control, as shown in Table 2.

Table 2. The situation of Suning acquisition cases in 2011-2015

Acquisition Year	Acquisition Target	Total Price	Purchase Shares	Target Industry
2009.06.25	Japan LAOX	¥ 57.7 million	27.36%	Retail
2012.09.25	Red Baby	\$66 million	100%	Mother infant vertical E-commerce
2013.10.29	PPTV	\$420 million	44%	Web video
2014.01.27	Manzuo.com	\$10 million	100%	Group buying
2015.12.10	PPTV	¥ 240 million	Increase to 64%	Web video

2.2.2. Financing strategy

Since the adoption of asset-light operation, Suning.com adheres to the expanding investment strategy, and consumes a huge amount of funds in the construction of its online and offline platforms and logistics network, so the diversified financing strategy has become the inevitable choice of Suning.com. Because of the lower cost of debt financing, Suning.com has a larger proportion of debt financing and a smaller proportion of equity financing. Finally, it uses the issuance of stocks as a supplementary means of financing to provide financial support for its expanded business activities.

Suning.com's current financing strategy is more radical, mainly relying on supplier funds, bank loans and bonds, while also supplementing the use of stocks and other means of financing. The enterprise issued a total of 8 billion yuan of bonds in 2012 and 2013, and the use of short-term loan financing increased in 2015. The new equity financing came from Alibaba's investment in

Suning.com in 2016. Loan financing served as the main financing method in 2017 and 2018, including one-time bond financing.

2.2.3. Financial operation situation

In 2013, Suning.com started the e-commerce mode, and the cloud stores focusing on experience services gradually replaced physical stores with centralized exhibitions. At the same time, Suning.com strengthens its efforts to cooperate with suppliers, organizes production as needed, and cooperates with suppliers to develop new products, and began to implement the C2B mode. Since then, the total asset scale of Suning.com has soared from 82.2 billion yuan in 2014 to 199.5 billion yuan in 2018, with an increase of 58.80%. At the same time, as the scale of total assets has increased, Suning.com also has obvious characteristics of a financial enterprise. From 2014 to 2018, the proportions of notes payable, accounts payable, long-term loans and bonds payable of Suning.com are shown in Figure 1.

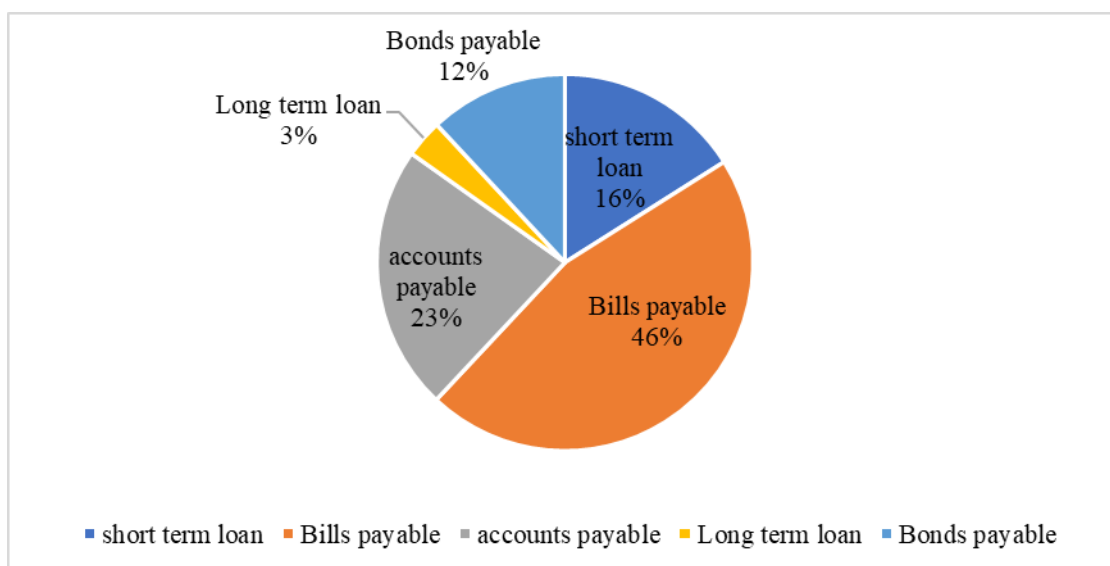


Figure 1. The average proportion of debt items of Suning.com. (Unit: ten thousand yuan)

As a retail enterprise, Suning.com has shown a strong cyclical operating characteristic, which has also led to periodic fluctuations in Suning.com’s cash flow, and higher requirements for the stability and sustainability of current assets. In Suning’s current assets, inventories,

accounts receivable and notes receivable, other receivables, and advance payment account for less than 50% of the total, which had been reduced to 37.41% by the end of 2018. Related current assets are shown in Table 3.

Table 3. Working capital of Suning.com. (Unit: ten thousand yuan)

Financial Year	2014	2015	2016	2017	2018
Inventory	1,603,852	1,400,480	1,439,230	1,855,149	2,226,329
Accounts Receivable and Bills	53,558	71,054	113,611	240,821	668,069
Advance Payment	385,180	670,652	975,055	866,771	1,746,871
Other Receivables	191,387	240,483	409,522	691,919	287,454
Total	2,233,977	2,382,669	2,937,418	3,654,660	4,928,723
Current Assets	5,064,741	5,675,187	8,238,364	8,782,968	13,174,254
Aggregate Share	44.11%	41.98%	35.66%	41.61%	37.41%

As a leading asset-light retail enterprise in China, Suning.com focuses on retail, logistics and other businesses to vigorously develop smart retail ecology and enhance core service capabilities and brand value. In 2018, the enterprise achieved a year-on-year growth of 30.35% in operating income, maintaining a relatively rapid growth rate.

3. Problems of Financial Strategy in Suning.com’s Asset-light Business Model

3.1. Radical Expansion and Overloading

Suning.com has spent a lot of energy on logistics expansion. Long-term loans were made in 2015, but it was still unable to meet the demand for expansion, and the enterprise’s net cash from operating activities also continued to decrease with the decline in performance. Since Suning.com’s main focus on online logistics, self-built logistics chain has become its supporting project, and then launched the concept of logistics cloud, so the enterprise’s operating costs will inevitably increase. In

contrast, the share of customers and B2C of the peer enterprise JD.com far exceeds that of Suning.com. Therefore, Suning.com has relatively narrow customer acquisition channels at the logistics aspect, which is not in line with the concept of asset-light mode. At this time, the construction pressure is very high.

3.2. Blind Expansion and Low Investment Efficiency

Suning.com has implemented diversified operations in order to give full play to its market and position advantages. However, judging from the status of its investment strategy, there is blind expansion in its investment process.

From 2013 to 2018, Suning.com concentrated on implementing its transformation and development strategy, vigorously developing O2O Internet marketing mode, continuously developing first-tier cities and online flagship stores, rapidly expanding the area of offline store management, and upgrading and transforming existing stores, and establishing logistics platform and base on the basis of TTK Express, so as to further expand the

coverage of chain retail business in prefecture-level cities. The impact of corporate strategic transformation on financial strategy is fundamental and long-term. This shows that all construction projects are occupying and consuming a large amount of funds, but it cannot reflect the investment benefits in the short term; moreover, Suning.com needs to integrate offline stores and online malls to expand the store scale, resulting in new expenditures. This led to a rapid rise in operating costs and a decline in profitability. Therefore, the efficiency of investment projects is greatly reduced.

Subsidiaries with poor performance occupy the resources of the enterprise's original industry and will also weaken the overall profitability of the enterprise.[4] For example, Suning.com wanted to get a piece of the "video shopping" field and acquired PPTV with US\$420 million in 2013 to establish a precision marketing client in this direction. By the end of 2015, Suning.com arranged for PPTV to return to the development of smart hardware and self-made content, and transferred 68.08% of its equity to overseas subsidiaries. Its later development deviated from the expected goal. For another example, Suning.com's acquisition of Inter Milan is to a large extent to achieve brand effect and open up international reputation, and its long-term nature is self-evident. However, Suning.com's integration of the brand-new sports industry requires relatively large costs, and it

is difficult to achieve sufficient returns in the short term, indicating that some of Suning.com's projects have low investment efficiency.

Although Suning.com is actively implementing asset-light operations and striving to develop in the direction of diversification, the status of a series of investment operations is not optimistic. It can be seen that Suning.com's frequent diversified investment has not brought the core values and competitive advantages to the enterprise. The rapid expansion of the scale of operations has instead made the online and offline integration not in place, resulting in the low income and efficiency of some projects under the diversified investment structure.

3.3. Unreasonable Financing Structure

At present, supplier funds, equity financing and debt financing are the three most important financing methods of Suning.com, which are narrow and single. At the same time, the bank's short-term loans to Suning.com have higher interest rates, which increased Suning.com's financing costs. At the same time, Suning.com's own dependence on banks has increased. Once the bank stops lending to Suning.com, Suning.com's fragile capital chain will undoubtedly be seriously damaged, and daily operations will also face serious difficulties.

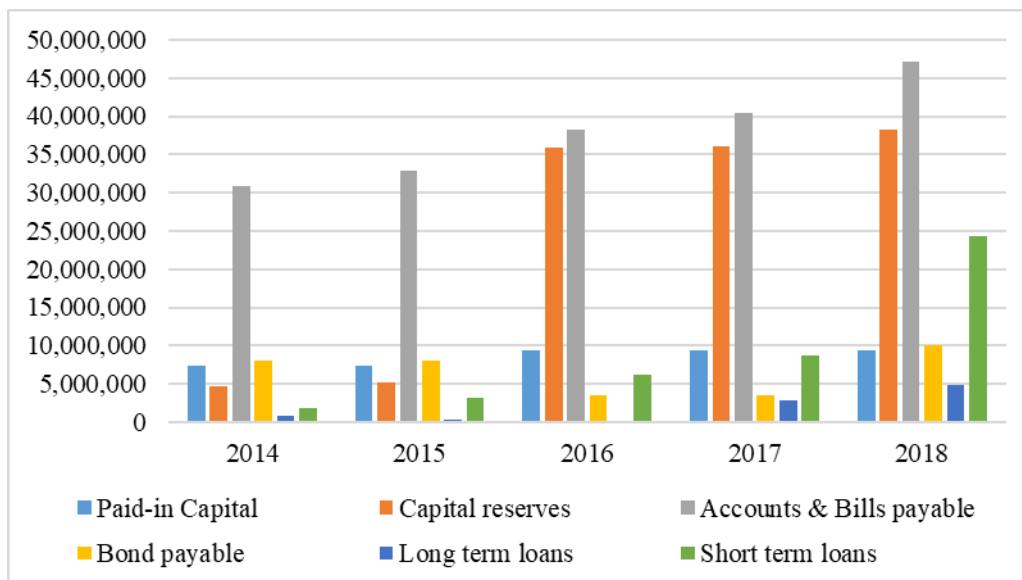


Figure 2. The funding situation of Suning.com from 2014 to 2018

From the historical data of Suning.com, there were basically no long-term loans and bonds payable before 2012, and only a small amount of short-term loans. Suning.com only borrowed long-term loans in 2013, and the value is still far lower than the scale of short-term corporate loans. Both equity and capital reserve have increased substantially in 2016, and equity financing has been strengthened. Accounts payable and bills have been at a high level during the period shown in Figure 2 and are gradually increasing, indicating that Suning.com has increased the utilization of supplier funds. The financing amount of bonds is fluctuating but has an upward trend.

However, considering factors such as issuance conditions and capital costs, Suning.com also reduced the scale of bonds payable in 2016, indicating that Suning.com's financing channels are relatively narrow. The financing situation from 2014 to 2018 shows that although Suning.com has increased short-term loans, its financing methods are still mainly supplier funds and equity financing.

Among bank loans, Suning.com's long-term loans accounted for an extremely low proportion, but short-term loans have increased greatly in the past three years. This has aggravated Suning.com's dependence on bank

short-term loans in the process of its operations, and also increased the pressure of debt repayment in the short time. As a result, Suning's current debt ratio remains high in the process of debt financing, and this uncoordinated financing structure increases the possibility of debt crisis. In addition, Suning.com spent 10 billion on the construction of "Suning cloud warehouse" for a long time, but many of its funds are derived from the short-term loans of banks, which led to the risk of "short-term loans and long-term loans". From 2015 to 2018, Suning.com's current debt ratio was above 80%, and a large amount of current debt is like a huge stone weighing on Suning.com, which not only affected the short-term solvency of the enterprise, but also the high proportion of short-term loans was not conducive to the long-term development of enterprise.

Suning.com has not used its strong financing capabilities to carry out more long-term debt financing, so the enterprise will inevitably choose other ways to absorb capital flows. For example, short-term borrowings may cause high pressure on short-term debt repayment, and equity financing makes the cost of capital higher. It shows that Suning.com's financing structure has affected the enterprise's solvency and other financial indicators.

4. Suning.com's Financial Strategy Optimization Measures under Asset-light Business Mode

4.1. Reduce the Burden of Assets and Maintain A Moderate Scale of Expansion

First, slow down the speed of logistics expansion. Suning.com has been building its own logistics chain and has actively introduced the concept of logistics cloud in response to the trend of logistics digitalization. However, after the completion of the logistics cloud, although information sharing can be achieved, the scope of its service objects is still not wide enough, and other ancillary logistics businesses develop slowly. Therefore, Suning.com can build a refined logistics system, and choose to join the Cai Niao Logistics Alliance while gradually improving its own logistics system. This can not only reduce pressure and improve efficiency, but also quickly acquire more customers. Second, continue to reduce traditional stores. It is wise for Suning.com to replace traditional stores with cloud stores. With the continuous improvement of cloud store construction, Suning.com can strengthen the user experience of cloud stores, reduce stores, and increase the number of cloud stores.

4.2. Clarify Core Competitiveness and Optimize Investment Decisions

The investment decision-making of enterprises should be strategy oriented, concentrate resources to build core competitiveness to match the implementation of the overall strategy.[5] The core competitiveness of Suning.com is the development strategy of "one body and two wings". Suning.com should focus on effective investment, make full use of the significant advantages of O2O's existing business scale, gradually expand the scale

of logistics network construction and improve infrastructure, so as to steadily expand sales channels and lay a good foundation for enterprises to enhance their core competitiveness and sustainable development.[6] Therefore, Suning.com first needs to strengthen the construction and publicity of e-commerce platform. This goal can be achieved by forming a strategic alliance and cooperated with mature group buying websites, which can not only save operating costs, but also attract customers to the Suning.com platform. Secondly, it is necessary to continue to invest in the logistics system to replace the later logistics cost and inventory cost pressure with stable investment pressure in the early stage, thereby reducing the overall cost of enterprise's operations. Then, Suning.com should attach importance to the development of second and third tier cities, deploy the new O2O Internet retail mode as soon as possible, and gradually increase corporate outlets. Finally, Suning.com's transformation and development are inseparable from Suning sports, Suning finance and other diversified businesses. These businesses can be outsourced to strategic cooperative enterprises, which can not only reduce the enterprise's operating pressure, but also use professional enterprises to produce high-quality products and services.

4.3. Build Strategic Alliances and Optimize Financing Structure

For Suning.com, opening up diversified financing channels can enrich the sources of funds, ensure that funds continue to support the enterprise's development, and reduce dependence on supplier's financing channels.

Through the problem analysis, it can be seen that Suning.com has a relatively high proportion of short-term loans, while the proportion of long-term loans is low, which needs to be adjusted in time. Therefore, Suning.com should actively strengthen cooperation with commercial banks, increase information disclosure, enhance the trust between banks and enterprises, reduce the proportion of short-term loans as far as possible, increase the amount of long-term loans, and optimize the financing structure.[7]

Suning.com is like a financial enterprise, and suppliers are one of its important financing channels. It should strengthen cooperation with it, strive to shorten the transaction settlement cycle and achieve win-win development. For example, increasing the fixed bank's capital storage or continue to purchase the bank's stable financial products, which can not only obtain a certain amount of financial revenue, but also obtain more bank credit lines; using the new bank credit line, increasing bank acceptance bills to replace commercial acceptance bills enhance the enterprise's bargaining power in the supply chain market; increasing the proportion of prepaid accounts according to the supplier's compliance records and increasing the funding driving force of supplier projects.

5. Conclusion

This article analyzes the financial strategy of Suning.com and finds that the formulation of financial strategy must be coordinated with the enterprise's business mode to ensure the scientific and effective financial strategy. Suning.com's financial strategy and asset-light operating mode have some deviations, and its financial performance will undoubtedly decline with the existence of deviations. Suning.com's asset-light operations are still in the development period, and the domestic macro-economic downward pressure is relatively high, which has hindered the development of the entire home appliance retail industry, which will inevitably bring some operating pressure to the enterprise. But what is positive is that Suning.com has implemented this series of drastic reforms, its development strategy is positive and radical, diversified development has also been initially realized, and Suning.com still has great development potential in the future.

Acknowledgment

This work was supported by Jiangxi province 2019 postgraduate Innovation fund project: Research on the Influence of Dual-Class Share Structure on MI Company: From the Perspective of Control Rights Allocation (YC2019-S171).

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