

# Research on Sustainable Profitability of SF Express under Harvard Analytical Framework

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**Abstract:** With the development of network and e-commerce economy, the express industry has been growing rapidly in recent years. How to further improve the sustainable profitability in the extremely competitive express market has also become a hot issue of great concern to enterprises. Based on the Harvard analysis framework, this paper tries to make a comprehensive and objective systematic analysis of SF express company through the analysis of strategy, accounting, finance and prospect. This paper adopts the case analysis method, according to the typical representative of SF express, which is in the leading position in the express industry, and through the specific data support theory, focuses on the reasons why SF express is unique in the express industry market, demonstrates the profitability of SF express enterprises, and puts forward suggestions on the sustainable profitability of enterprises, which can also be used as a reference for other express enterprises to improve their sustainable profitability.

**Keywords:** Sustainable profitability, The Harvard Analytical Framework, SF Express.

## 1. Introduction

With the rapid growth of China's economy, the express industry has grown rapidly under the background of national economic prosperity, and seems to have become an indispensable part of the people's daily life. In 2021, the express business volume increased by 29.9% and the business income increased by 17.5%, which is very remarkable in the context of the slowdown of domestic economic growth. Private enterprises such as SF, Shentong, Yunda and Baishi Huitong have followed the trend of the times and seized market share. However, while expanding rapidly, many enterprises are facing thorny problems such as controlling costs and pricing. Therefore, how to further improve sustainable profitability in the rapidly changing and highly competitive express market has also become a hot issue of great concern to enterprises.

At present, the evaluation of business performance is mostly aimed at maximizing profits, focusing on the current profitability of the enterprise, ignoring the sustainable profitability, and failing to make a plan for the development of the enterprise from the perspective of long-term development. This paper introduces the basic Harvard analysis framework, qualitatively analyzes the business strategy of the whole enterprise from four perspectives, and analyzes and evaluates the enterprise performance from a quantitative perspective in combination with financial data. Finally, it gives more reasonable analysis suggestions for the future development prospect of the enterprise. Under the framework of Harvard analysis, we can look at enterprise management from an overall perspective and provide a new idea for sustainable profits of enterprises. Through the specific data support theory, this paper highlights the reasons why SF express is unique in the express industry market, and demonstrates the rationality and scientificity of SF express enterprises' adoption of sustainable profit strategy. It is hoped that other express enterprises can take this as a reference, improve its sustainable profitability and promote the prosperity of the express industry.

## 2. Strategic analysis on sustainable profitability of SF Express

To measure whether the profitability of an enterprise is sustainable, we should first start with the strategy, analyze whether it conforms to the actual situation of the enterprise and can maintain the core competitiveness of the enterprise. Based on this, it is necessary to use the SWOT analysis method

to summarize the internal and external environment of SF express and its own advantages and disadvantages, and compare it with the daily business activities of SF express to determine whether its strategy is correct and whether it can maintain sustainable profitability.

In terms of internal advantages, SF ranked first in terms of customer satisfaction for many years, the postal appeal rate continued to decline, and the whole time limit of express delivery ranked first for six consecutive years. This shows that SF enjoys a favorable brand image and a market leadership position widely recognized by the market while providing customers with high-quality product services. Its customers are sticky, its products are easy to be supported by customers, and its main business is developing steadily, There are few uncertain factors affecting profit sources.

In terms of internal disadvantages, compared with convenient and efficient services and higher cost investment, SF Express has higher postage. To a certain extent, SF's market positioning avoids the continuous price war of express delivery enterprises and seeks higher profit sources for itself. However, this strategy makes SF lose its growing middle and low-end market with infinite potential. As online shopping has gradually become a daily life of the people, some netizens tend to choose low-cost and postal products, and do not care about the speed of express delivery.

In terms of external opportunities, the express market has broad prospects for development, and the western region still needs express enterprises to explore the market. Nowadays, people's demand for online shopping is growing rapidly, and the state has also issued a series of policies to support the great market demand. For example, the State Post Office has formulated a plan to complete the network system that can connect all regions this year.

In terms of external threats, the rapid development of SF has had a great impact on other express companies. Several major express giants are trying to expand their business scope, optimize service levels, and further increase the competitive pressure. In addition, e-commerce enterprises, such as jd.com and Suning Tesco, also have their own logistics systems to further carve up market share.

### **3. Accounting analysis on the sustainable profitability of SF Express**

First, pay attention to the audit opinions of certified public accountants, in which the key audit opinions will be listed in the audit report, and find out the possible problems in the financial reporting and accounting data from the perspective of external audit. Then there are the key accounting subjects and accounting policies corresponding to the previous strategic analysis. The key elements meeting the standards indicate the strong profitability of the enterprise. Finally, it evaluates the information quality of mandatory and voluntary disclosure by enterprises, and judges whether enterprises have concealed information and deceived investors through the breadth and depth of disclosure.

#### **3.1 Pay attention to the audit opinions of Certified Public Accountants**

PricewaterhouseCoopers Zhongtian Certified Public Accountants issued an unqualified audit report for SF holdings. The audit report includes three key audit matters: the first is the fair value evaluation of identifiable net assets related to the acquisition and the related goodwill impairment test; the second is the goodwill impairment test related to FengHao supply chain business; the third is the recognition of logistics and freight forwarding service revenue. The number of transactions is huge and involves complex information systems. The auditor has invested a lot of audit resources in the audit process. These three items are the most important items selected according to the auditor's professional judgment, and corresponding audit procedures shall be implemented to confirm that they can be supported by the audit evidence obtained. Therefore, the unqualified audit report issued by PwC can basically be trusted, and the financial statement data disclosed by SF is accurate.

#### **3.2 Identify and analyze key accounts and accounting policies**

SF has increased a lot of R & D investment to implement the differentiation strategy. At present, SF continues to deepen information technology and use artificial intelligence and other technologies to support the logistics system, which creates conditions for the future intelligent logistics of SF. The company's R & D investment is shown in Table.1.

Table.1. Comparison of R &amp; D investment

	2019	2020	2021
Proportion of R & D personnel	4.41%	4.99%	3.54%
Proportion of science and technology investment in operating income	3.27%	2.77%	2.38%
Including: proportion of R & D investment in operating income	2.29%	1.95%	1.76%
Including: proportion of capitalized R & D investment in R & D investment	51.00%	40.31%	39.15%

SF's R & D expenditure has increased steadily year by year. From the reality of financial report disclosure, SF's invention patent applications in 2021 accounted for 61.5% of the total patent applications in 2021. Its patent holdings ranked first in the domestic express industry and won many industry honors. It is not difficult to see that its R & D strength is far superior to that of its peers.

### 3.3 Evaluation of information disclosure quality

Information disclosure refers to the public disclosure of enterprise related information to external personnel in various forms. Information disclosure promotes the communication between enterprises and the public. The public can understand the current operating conditions of enterprises by reading various reports of enterprises. Therefore, it is very important to disclose information truthfully, comprehensively, timely and fully, which has a significant impact on the decisions made by investors.

SF has made regulations on the information disclosure of enterprises according to the information disclosure management system. SF strictly implemented the regulations by disclosing the annual report, semi-annual report and prospectus of convertible corporate bonds at Shenzhen Stock Exchange, and comprehensively disclosing the enterprise information that has a significant impact on investors' decisions. In addition to the basic disclosure requirements, SF also discloses the changes in the business activities of the enterprise to facilitate investors to comprehensively evaluate the business results of the enterprise.

## 4. Financial analysis on the sustainable profitability of SF Express

DuPont financial analysis system uses the relationship between financial indicators to analyze the reasons for the change of the return on net assets of the enterprise, and can evaluate the business status of the enterprise. Its calculation formula is as follows:

$$\begin{aligned} \text{Return on equity} &= \frac{\text{Net profit}}{\text{Sales revenue}} \times \frac{\text{Sales revenue}}{\text{Average total assets}} \times \frac{\text{Average total assets}}{\text{Average equity multiplier}} \\ &= \text{Net profit margin on sales} \times \text{Total asset turnover} \\ &\quad \times \text{Average equity multiplier} \end{aligned}$$

According to the financial statements of SF in 2020 and 2021, the financial metrics in Table.2 can be obtained:

Table.2. Comparison of SF financial metrics in 2020 and 2021

	2020	2021
Net profit margin on sales	4.50%	1.89%
Total asset turnover	1.51	1.29
Average equity multiplier	2.05	2.08
Return on equity	13.97%	5.07%

This chapter uses the chain substitution method to make a quantitative analysis of the three influencing factors: net sales interest rate, total asset turnover rate and average equity multiplier. R represents the return on net assets, A represents the net interest rate on sales, B represents the turnover rate of total assets for auction, and C represents the average equity multiplier. Then take

2020 as the base year, that is, the return on net assets in 2020 is  $R_0$ , the return on net assets in 2021 is  $R_1$ . Similarly, the net sales interest rates in 2020 and 2021 are  $A_0$  and  $A_1$  respectively, the total asset turnover rates in 2020 and 2021 are  $B_0$  and  $B_1$  respectively, and the average equity multipliers in 2020 and 2021 are  $C_0$  and  $C_1$  respectively, so,

$$R_0 = A_0 \times B_0 \times C_0 = 13.97\%, \quad R_1 = A_1 \times B_1 \times C_1 = 5.07\%$$

$$\text{First substitution: } A_1 \times B_0 \times C_0 = 5.87\% \quad \textcircled{1}$$

$$\text{Second substitution: } A_1 \times B_1 \times C_0 = 5.01\% \quad \textcircled{2}$$

$$\text{Third substitution: } A_1 \times B_1 \times C_1 = 5.07\% \quad \textcircled{3}$$

The impact of net interest rate on return on net assets is  $\textcircled{1} - R_0 = 5.87\% - 13.97\% = -8.10\%$ , the impact of total asset turnover on return on net assets is  $\textcircled{2} - \textcircled{1} = 5.01\% - 5.87\% = -0.86\%$ , and the impact of average equity multiplier on return on net assets is  $\textcircled{3} - \textcircled{2} = 5.07\% - 5.01\% = 0.06\%$ .

Based on the above calculation results, it can be known that the total impact of each factor is  $R_1 - R_0 = -8.90\%$ . Among them, the factors that have a negative impact on the return on net assets are the net interest rate on sales and the turnover rate of total assets. The net interest rate on sales decreased the return on net assets by 8.10%, the turnover rate of total assets decreased the return on net assets by 0.86%, and the average equity multiplier increased the return on net assets by 0.06%. The overall profitability of SF in 2021 decreased compared with that in 2020. The most serious impact was on the net profit margin of sales. According to the analysis of the statement, the operating revenue increased compared with that in 2020, but the operating cost increased significantly, indicating that SF's cost management level still needs to be improved. SF needs to pay attention to risk prevention and stabilize its profitability.

## 5. Prospect analysis of SF Express's sustainable profitability

### 5.1 Market risks

At present, China's macroeconomic growth is slowing down, and there is great uncertainty in the future market. Changes in the economic situation will have a great impact on the performance of SF. At the same time, under the background of national policy support, many enterprises have joined the express industry, and the industry competition pressure is increasing. SF has always been positioned in the medium and high-end market, while express companies such as Yuantong are constantly strengthening their own strength, establishing aviation logistics hubs, and gradually becoming part of the medium and high-end market, which is undoubtedly a huge threat to SF's business strategy.

### 5.2 Operational risks

From the analysis of strategy, accounting and finance, it can be concluded that SF's profit space is shrinking. In terms of operating costs, since SF is a direct operating model, its heavy assets need to accrue a large amount of depreciation every year, and the financial expenses incurred from borrowing for resource construction in the early stage have also become a major burden for the enterprise. Compared with the mode of small scale and small assets of franchise enterprises, SF & Fung has a large investment in management expenses, which is difficult to reduce costs. Under the situation that other express delivery enterprises are constantly raising prices, SF & Fung has reduced its profit margin instead of increasing its price, which makes the business volume of the enterprise not match the single piece revenue. As a result, the operating revenue has increased significantly, but the net profit is declining, and the profit margin is lower than the average level of the industry.

### 5.3 Technical risks

In the face of the large number of basic business users in the enterprise and the complex needs of new business, SF flexibly uses a variety of information technologies to build an information network platform and quickly process customer data in large quantities. However, with the emergence of new

technologies, user information systems may no longer meet the current needs and face the risk of upgrading. In addition, SF has accumulated a large amount of customer information and confidential information of various businesses of the enterprise over the years. Although SF has provided a series of information control mechanisms in protecting information, the security risk of information theft cannot be ruled out.

## 6. Conclusions

Based on the Harvard analysis framework, this paper analyzes the sustainable profitability of SF express from four dimensions: strategy, accounting, finance and prospect. At present, the development trend of SF is strong. The vertical integration and differentiation strategy have created SF's core competitiveness. The information disclosure conforms to the norms of the accounting industry. The financial data are authentic and reliable. The operating revenue is increasing year by year. The enterprise has broad prospects and good profitability. However, SF faces risks in such aspects as huge fixed assets, rising costs and the impact of market competitors, which affect SF's sustainable profitability. SF needs to take measures such as formulating different service strategies according to different express market demands, accelerating its own construction speed, appropriately outsourcing noncore businesses, and diversified development, In the era of both opportunities and challenges, lead SF to hold the position of industry leader. At the same time, we also hope that SF's impressive performance can provide some reference for peer enterprises, adopt strategies consistent with the company's operating conditions, and jointly promote the vigorous development of the express industry in today's prosperous environment.

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