

Financial Analysis of Fresh Food and Agricultural Products Supermarkets under New Retail Model

-- Taking Yonghui Superstores as an Example

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Abstract. After the transformation from physical retail to new retail model, what changes have taken place in the business conditions of enterprises which implement the transformation strategy? Yonghui is one of the first retail enterprises in China to introduce fresh food and agricultural products into modern supermarkets, and has a large market share and strong brand influence in China. Based on Harvard Analysis Framework, Yonghui's Management condition is analyzed from qualitative and quantitative dimensions. The results are as follows: 1. Apply the emerging technologies to meet customers' demands for freshness and standardization. 2. The integration of super retail capability and super technical capability should be the main focus of retail industry competition in the digital era. 3. Yonghui is entering a benign period of development.

Keywords: New Retail Model, Yonghui Superstores, Harvard Analytical Framework, Financial analysis.

1. Introduction

With the rapid development of mobile Internet, big data application and Internet of Things technology, the psychology and behavior of consumer have undergone great changes. In 2020, due to the COVID-19 pandemic, online shopping is becoming a mainstream consumer channel. It is mainly due to the disadvantages of the traditional retail industry, such as the over-simplification of sales channels and higher management costs. Therefore it is difficult to continue operating in the Internet era. Although online retail is an emerging market, it also faces great difficulties in operation, such as low barriers to entry, difficulty in realizing economies of scale, low concentration of competitors and unguaranteed product quality. With the proposal of the concept of "new retail" in 2016, retail enterprises have applied big data, Internet of Things and other technologies to achieve the integration of online and offline development in order to stabilize market share. This paper studies what changes have taken place in the company's overall operating status, financial status and operating results after the transition from physical retail to new retail mode.

Yonghui Superstores Co., LTD. (referred to as: Yonghui) is one of the first retail enterprises in China to introduce fresh food and agricultural products into modern supermarkets, and has a good market reputation and customer satisfaction at home and abroad. This paper chooses Yonghui Supermarket, based on the development of the new retail model, using Harvard Analysis Framework and taking strategic analysis as the starting point, through the accounting and financial analysis of Yonghui, to analyze the prospects of retail business and enterprise development.

2. Basic information of Yonghui

Yonghui was listed in Shanghai Stock Exchange in 2010 (stock code :601933). Headquartered in Fuzhou, yonghui Supermarket is a physical retail enterprise mainly engaged in fresh food and agricultural products and supplemented by daily necessities. The company has four business units: Yunchao, Yunchuang, Yunshang and Yunjin, truly achieving the goal of "supermarket for the

people's livelihood and Yonghui for the people". In 2016, Yonghui began to vigorously develop online business, expand the logistics park, build a modern logistics distribution system, improve the turnover efficiency of fresh food and agricultural products, meet consumer demand and optimize shopping services. At present, Yonghui adopts both online and offline operation synchronously. Offline business is conducted in nearly 600 Yonghui superstores all over the country. Online business is conducted through cooperation between self-operated e-commerce and third-party e-commerce, mainly relying on yunchuang platform (including Yonghui Life Store, Super Species, Yonghui Life APP and wechat mini program, etc.) and jingdong official flagship store.

3. The application of Harvard analysis method in Yonghui Supermarket

3.1 Strategic analysis

3.1.1 Macro environment analysis (PEST)

(1) Political and Legal Environment Factors. In November 2016, The State Council issued the Opinions on Promoting innovation and Transformation of Physical Retail. This document clarifies the development direction of physical retail enterprises under the new retail model from three aspects of adjusting business structure, innovating development mode and promoting cross-border integration, which plays a positive role in stimulating the innovation and transformation of physical retail industry. In October 2017, The State Council issued the Guiding Opinions on Actively Promoting Innovation and Application of Supply Chain. This opinion guides the transformation of traditional circulation enterprises to supply chain service enterprises, and expands quality management, traceability services, procurement execution, logistics services, etc., which is conducive to the transformation of physical retail enterprises to the new retail model. In June 2019, the State Administration of Taxation issued the latest guidelines on Preferential Tax Policies for Mass Entrepreneurship and Innovation. The guideline introduces 26 preferential tax policies in four categories to help mature enterprises grow. In August 2019, The State Council issued the Opinions on Accelerating the Development of Circulation and Promoting Commercial Consumption. The document proposes 20 policies and measures to stabilize consumption expectations and boost consumption information to speed up the development of convenience store chains.

(2) Economic Environment Factors. China's GDP reached 101.6 trillion yuan in 2020, up 2.3 percent from 2019, according to the National Bureau of Statistics. Retail sales of consumer goods totaled 39.2 trillion yuan in 2020, 3.9 percent less than in 2019, according to China National Business Information. In 2020, the sudden outbreak of the novel coronavirus seriously affected the total retail sales of consumer goods. However, as the government introduced various measures to stimulate consumption and the epidemic gradually eased, the development of the total retail sales of consumer goods gradually opened up in the second half of the year, and the economic growth rate began to improve.

(3) Social Culture Factors. With the accelerating pace of social work, great changes have taken place in the lifestyle of consumer groups. The upgrading of social consumption in China has become an inevitable trend, and these changes also promote the development of retail industry. Due to the fierce competition of retail industry, the consumer market has gradually developed into a buyer's market. Therefore, if the retail industry wants to maintain its own market position, it must quickly respond to the change of customer demand. Yonghui, which attaches great importance to the linkage development and makes good use of global high-quality supply chain resources, will bring huge business opportunities in the future.

(4) Scientific and Technological Level Factors. Yonghui has information systems such as supplier VSS system, secure and independent background management system, which allows suppliers to log in and process all kinds of orders. It not only opens up online sales channels, but also brings innovation of new offline business modes. Yonghui obtain data through the Internet, cloud computing analysis, digital management and supply chain integration, constantly promote refined management,

not only improve the management efficiency of the enterprise, but also provide advanced service experience for customers, to achieve "Reassuring Yonghui".

3.1.2 Enterprise strategy analysis (SWOT)

(1) Strength. As of February 2021, Yonghui has 1,024 offline stores in China, and its offline market share is higher than the average level of the industry. The high-quality supply chain resources, human resources, store resources and logistics system with path dependence lay a solid foundation for promoting the integration of online and offline supermarkets. Yonghui promote the sale of other goods through taking fresh food and agricultural products as the characteristics of its business model, and form the core competitiveness of the enterprise; Yonghui creates a unique business model which allows consumer to purchase fresh food and agricultural products directly from the planting base, plus the delicacy management, to ensure the quality of the goods. In addition, Yonghui has established a systematic logistics distribution system, using the closed-loop cold chain distribution to transport the fresh food and agricultural products, not only to improve the freshness of the products and get the advantages of preferential price for customer, but also to reduce storage, logistics, loss and other related costs.

(2) Weakness. Because the operation mode of Yonghui is characterized by fresh food and agricultural products, the key to fast turnover of products is procurement, transportation and sales personnel. However, the front-line staff of Yonghui generally have low educational background and lack professional training, which leads to the overall low service level and difficult to guarantee the quality of fresh food and agricultural products. Due to the characteristics of the industry, the variety of goods is huge and miscellaneous, which increases the management cost and cannot be refined in the market, so it has no advantage in the centralized market. Yonghui constantly tries to "Up and Down Linkage", but its e-commerce channel of fresh food and agricultural products does not have the strength of offline stores. This shows that its ability to apply emerging technologies is relatively weak.

(3) Opportunity. With many favorable policies such as "industry feeding agriculture" and Internet reform to encourage industry and commerce, Yonghui is promoted to apply "Internet + agriculture" to create "Yonghui in mobile phone". In recent years, Yonghui has cooperated with many well-known enterprises, such as Tencent, Jingdong, etc., laying a solid foundation for yonghui to implement diversification strategy, in order to obtain a higher rate of return on investment and increase market competitiveness.

(4) Threats. With the rapid development of China's information industry, retail enterprises have entered the field of e-commerce, posing a threat to the online marketing of Yonghui Supermarket. In addition, the development of fresh food and agricultural products e-commerce is higher, attracting many existing and potential competitors to enter, so that the competition of market share is more and more fierce; In the retail industry, although large supermarkets do not focus on fresh food and agricultural products, they will also pose a threat to Yonghui. Traditional farmers' markets will also carve up some of Yonghui's target consumer groups; In addition, there are high food safety risks in the retail industry. Once problems occur, the brand goodwill of Yonghui will be seriously affected.

To sum up, after analyzing the internal and external conditions of Yonghui Supermarket, enterprises can choose the development strategy based on SO growth strategy (Based on the overall strategy of the enterprise, cross-field platform and national policy support are utilized to further increase market share and enhance brand goodwill) and supplemented by ST diversified business strategy (Optimize business strategy, procurement mode and distribution system, strengthen enterprise competitiveness, improve safety and quality of the products).

3.2 Accounting analysis

3.2.1 Accounts receivable

From 2016 to 2020, the balance of receivables of Yonghui showed a peak shape. By analyzing the proportion of the balance of receivables in the operating revenue in the past five years, it can be seen

that the overall receivables showed a peak shape and reached the peak in 2018 with a fluctuation range of 0.53%-3.05%, indicating a positive correlation between receivables and operating revenue. From 2016 to 2018, the proportion of receivables in total assets increased year by year, indicating that the enterprise expanded the investment scope of business. Meanwhile, the operating income in 2018 increased by 43.23% compared with that in 2016, explaining the sharp increase in proportion to a certain extent. Since 2019, the proportion of receivables in total assets has been declining year by year, which is due to the adjustment of enterprises' policies on receivables. In addition, due to the sudden outbreak of COVID-19 in 2020, it has had a negative impact on relevant and support industries, resulting in a decrease of 53.21% in the balance of receivables in 2020 compared with 2019. Since January 1, 2019, the enterprise has adjusted the provision method of accounts receivable for bad debt, so that the bad debt provision ratio is inversely proportional to the balance of accounts receivable, while the proportion of accounts receivable to operating revenue and accounts receivable to total assets does not change due to the change of credit policy. It indicates that before adjusting credit policy, the method of making allowance for bad debt accounts receivable is relatively small according to whether the single amount is significant or not.

3.2.2 The inventory

Due to the nature of the industry, the main component of inventory is inventory goods, followed by low-value consumables. The provision of inventory depreciation reserve is at a low level and basically stable, which is related to the overall development of the new retail model. Yonghui adopts online and offline synchronous operation. In addition, during the period of COVID-19, the government introduced various measures to stimulate consumption, which increased the demand for retail products and raised the market equilibrium price, thus the estimated selling price of inventory increased, the ratio of inventory cost lower than net realizable value decreased, and the provision of inventory depreciation reserve dropped to zero in 2020. From the analysis of inventory classification, the reserve for inventory price decline all comes from inventory goods, which is in line with the characteristics of retail industry.

3.2.3 Fixed assets

The fixed assets and accumulated depreciation of Yonghui showed a significant upward trend from 2016 to 2020, mainly due to the investment in houses and buildings, which are essential operational elements for the retail industry. In addition to electronic equipment, the fixed assets such as houses, buildings, machinery and equipment of Yonghui increased with the development of the enterprise, among which transportation equipment increased by 434.54% compared with the figure in 2016. Combined with the macro environment analysis, due to the strict requirements of epidemic prevention and control, Yonghui actively promoted the consumption mode of "zero contact shopping". The on-duty personnel and transportation equipment of logistics distribution center in each region should be increased to ensure the stability of social order. Therefore, Yonghui's transportation equipment surge, actively fulfill the social responsibility. In 2016, the concept of "new retail model" was put forward, which made many traditional retail industry begin to pay attention to the Internet and other information technology, and then increased the investment in electronic equipment. However, it began to fall in 2020. Meanwhile, the proportion of fixed assets in the total assets of Yonghui in the past five years is relatively stable, indicating that the enterprise's investment strategy on fixed assets is relatively stable.

3.3 Financial analysis

3.3.1 Solvency

(1) Longitudinal analysis of solvency. In terms of short-term solvency. For the retail industry, the liquidity ratio should be above 2, while the quick ratio should be above 1, and the cash ratio should be above 20%. From 2017 to 2019, enterprises increased the dividend and investment of monetary funds year by year, and increased the borrowing amount of short-term loans every year, making the three ratios decrease. From 2017, the current ratio of the enterprise began to decline below the

empirical value, indicating that the guarantee degree of Yonghui's current assets to current liabilities is gradually decreasing. However, from the perspective of the ability to pay, the normal operation of Yonghui from 2018 to 2020 largely depends on the support of short-term debt financing activities. The enterprise debt operation has a positive effect, and appropriate increase of financial leverage can better use leverage to create profits. The quick ratios of enterprises from 2018 to 2020 are all below the empirical value, indicating that enterprises have short-term financial risks. However, the quick ratio and cash ratio in 2020 have increased compared with the previous year, and the cash ratio has increased to above the empirical value, indicating that the solvency of enterprises may be further improved in the future and the liquidity of assets further enhanced.

In terms of long-term solvency. The appropriate range of asset-liability ratio is 40%~60%, and the appropriate equity ratio is 1. The asset-liability ratio of Yonghui fluctuated within an appropriate range in the past five years, slightly higher than 60% from 2019 to 2020, mainly due to the development strategy of borrowing, so that the scale of liabilities of the enterprise keeps expanding, but overall, the capital structure is reasonable. It is necessary to pay attention to the equity ratio. From 2018 to 2020, the equity ratio increased year by year and was greater than 1, which indicates that the liabilities of enterprises are greater than shareholders' equity, and there are large financial risks, and the protection degree of long-term debts due in the future is low. Thus, the ability of enterprises to repay long-term debt needs to be improved.

(2) Horizontal analysis of solvency. Through comparative analysis, it can be seen that the short-term solvency index of Yonghui is lower than that of Wangfujing and Xinhua, and higher than that of Zhongbai Group. It indicates that in 2020, Yonghui has weak guarantee level and short-term solvency of short-term debt in the industry. In terms of long-term solvency, the asset-liability ratio and equity ratio of Yonghui are lower than those of Zhongbai Group and Xinhua, and the two ratios are in the middle and upper reaches of the industry, indicating that Yonghui faces low financial risks. In general, yonghui's debt paying ability under the new retail model is relatively appropriate.

3.3.2 Operating capacity

(1) Vertical analysis of operating capacity. Since 2017, receivables turnover has been on a downward trend, with a year-on-year decline of 83.31% in 2020 compared with the figure in 2016, indicating that when enterprises expand their income scale, receivables have poor liquidity and slow collection speed. From the analysis of accounts receivable, it can be seen that the enterprise has adjusted the provision method of accounts receivable bad debt provision since 2019. Although the balance of accounts receivable has decreased, the net income from credit sales of the enterprise has decreased and the provision ratio of bad debt provision has increased. In the new retail period, the longer business cycle of enterprises is mainly caused by the decline of accounts receivable turnover. Enterprises should take timely measures to improve the efficiency of accounts receivable and reduce the possibility of bad debts.

Yonghui supermarket for the main fresh agricultural products, inventory turnover index is particularly important. The inventory turnover rate of Yonghui Supermarket from 2018 to 2020 showed a downward trend, indicating that the enterprise's inventory management level and efficiency are on the decline. Combined with the inventory analysis, it can be seen that the inventory balance in 2020 increased by 1.02 compared with that in 2016, and a large amount of inventory accumulation slowed the inventory turnover speed of enterprises. Therefore, enterprises should use stronger marketing means and credit policies to speed up the liquidity of inventory, and strengthen the management level of inventory to improve the inventory turnover rate of enterprises.

The turnover of current assets and total assets of Yonghui showed a peak evolution trend from 2016 to 2020, and began to decrease year by year after rising in 2018. This shows that the enterprise's management quality and utilization efficiency of total assets are not high, mainly due to the decline of accounts receivable turnover rate leads to the weak speed of assets realization. Therefore, Yonghui should take efficient management measures to reduce the occurrence of idle assets, so as to further improve the operation capacity of the enterprise.

(2) Horizontal analysis of operating capacity. The receivables turnover rate of Yonghui in 2020 is only better than that of Xinhua, indicating that the receivables management efficiency of the enterprise is at a low level in the industry. In terms of inventory turnover, current assets turnover and total assets turnover, Yonghui is in an advantageous position relative to the enterprises of the same industry. All in all, the firm has a better overall turnover rate than the benchmark firm. However, in the future, Yonghui should establish and improve accounts receivable management system, increase the frequency of cooperation with customers with good credit, reduce the provision for bad debts, and improve accounts receivable turnover on the basis of maintaining good operating efficiency.

3.3.3 Profitability

(1) Longitudinal analysis of profitability. The profit margin of Yonghui's main business basically remained stable from 2016 to 2020, and rose steadily from 2016 to 2018, indicating that the profit level of the company's main business was constantly improving. In 2019, the profit margin of the main business declined slightly, which is because the growth of operating costs is faster than the growth of operating revenue.

From 2016 to 2020, the net profit margin on sales of Yonghui fluctuated between 1.4% and 2.9%. The lowest year of net profit margin on sales was 2018, which showed a decrease compared with that in 2017, indicating that the profit level of sales revenue of Yonghui in 2018 was not ideal, but gradually began to rise from 2019. Therefore, Yonghui needs to pay attention to cost control in the future.

The net profit margin of The total assets of Yonghui has been declining since 2018, because the total assets of the enterprise are increasing year by year, and the growth rate of total assets is much higher than the growth rate of EBIT. In 2017, the enterprise has the highest input-output level, the most effective operation efficiency of total assets, and the best control of costs and expenses. Through the longitudinal analysis of enterprise income statement in recent five years, it can be seen that the growth order of total operating cost is: financial expense > sales expense > operating cost > administrative expense, resulting in the growth rate of EBIT is slightly slower than that of total assets. The substantial increase in financial expense in 2019 is mainly due to cash investment in Wanda, Yunchuang and 1233 Supply Chain through short-term borrowing, as well as continuous expansion of the enterprise. Selling expenses are mainly due to the reduction of concentration and the launch of new business units, such as MINI stores, Bravo stores, etc. As the new business units are slightly unfamiliar to consumers, the enterprise carries out publicity and promotion through online linkage in order to accelerate the acceptance of consumers and gain a huge market space. The growth rate of operating income and operating cost was basically flat, indicating that the cost control was relatively significant and the impact of macro inflation was small. The main reason for the increase in administrative expenses is employee compensation, while in 2019, administrative expenses declined significantly. On the one hand, it is related to the enterprise's divestiture of Yunchuang and Color Food Fresh business units; On the other hand, the learning curve effect increases efficiency and reduces job demand.

The return on equity of the enterprise increased in 2017 but began to decline in 2018, mainly because the cost and expense increased compared with the previous year, indicating that the enterprise continued to expand and develop through debt and increased marketing efforts without cost control. From 2019, the return on equity of enterprises began to rise and reached the highest value in the past five years in 2020, indicating a high level of profitability of enterprises. On the one hand, the successful operation of the new retail mode of the enterprise, the increase of sales leads to the improvement of EBIT; On the other hand, during the epidemic, enterprises actively expanded online channels and did a good job in offline epidemic prevention and control, which increased their market trust and customer satisfaction and increased their business volume. Therefore, the profitability of enterprises will continue to rise in the future.

(2) Horizontal analysis of profitability. The return on net assets of Yonghui is second only to Xinhua, which is above medium level in the industry, indicating that Yonghui has a leading competitive position and strong profitability in the fresh food and agricultural products market. In

addition, according to the decomposition of roe, Yonghui, Wangfujing and Xinhua all adopt the strategy of "high profit and low turnover" in terms of business strategy. In terms of financial policy, Yonghui, Zhongbai Group and Xinhua all adopt the structure of "low operational risk, high financial leverage". In general, Yonghui's utilization efficiency and profitability of assets are relatively good, but there is still a large room for improvement in the future.

3.3.4 Develop capacity

(1) Longitudinal analysis of development capacity. The growth rate of main business income of Yonghui Supermarket showed an increasing trend from 2016 to 2019, and began to decline in 2020, largely due to the impact of the epidemic on offline retail performance in 2020, internal business integration and reorganization of scattered business units, resulting in the sluggish growth of main business of the enterprise.

From 2017 to 2018, the growth rate of net profit showed a downward trend, decreasing to -40.8%, mainly due to the increase of selling expenses and administrative expenses of enterprises. In 2018, the new stores caused the sales expenses to increase 36.78% year-on-year; Due to the increase of management personnel and equity incentive, the enterprise management expenses increased by 68.84% year-on-year. The growth rate of net profit picked up in 2019 but began to decline in 2020, mainly affected by the increase of interest expense, marketing and advertising expenditure, product cost, employee compensation and equity incentive policies. Therefore, enterprises should take timely cost control and other relevant measures to improve the comprehensive business performance of enterprises.

The growth rate of corporate net assets began to fall off a cliff from 2017, and showed negative growth in 2018 and 2020. The sharp decline in the growth rate of net assets in 2018 was caused by share repurchases, which totaled 1,628.81 million yuan of common shares. The decline in the growth rate of net assets in 2020 is due to the decrease of paid-in capital and capital reserve and the increase of Treasury stocks. The total assets of Yonghui are increasing year by year, indicating that the enterprise's asset scale is expanding. However, in 2018, the growth rate of total assets was greater than the growth rate of net profits, which indicates that the expansion of asset scale in 2018 is inappropriate and not beneficial growth.

(2) Horizontal analysis of development ability. The growth rate of net profit is chosen as the main reference index and compared with the development ability of the company. The net profit growth rate of the enterprise is only lower than that of Zhongbai Group, which shows that Yonghui has a relatively stable development rate and stable operation style in the industry.

4. Prospective Conclusion

From the external environment, the "new retail model" quietly emerged in 2017, and the major retail industries have successively formulated the strategic layout of new retail model. With the continuous optimization of China's basic communication network, data empowerment and logistics chain technology, it provides more diversified development space for new retail formats. At the same time, with the aging of China's population and offline to online consumption habits, the new retail model has become the general trend of the future. For the fresh food and agricultural products featured by Yonghui, consumers are more inclined to judge the freshness of fresh food and agricultural products by the sense of reality. Meanwhile, the online consumption of fresh food and agricultural products needs to be standardized in products, distribution and other aspects. Therefore, emerging technologies are actively applied, and new business forms are innovated online and offline to build diversified consumption scenarios for users, so as to meet consumers' demands for freshness and standardization. With the rapid development of big data, the retail industry has accumulated a large amount of user information through improving and establishing digital platforms. In the future, retail enterprises should focus on how to integrate super retail capability and super technical capability. Super retail capability should be based on different types, different supply chain rules and different business attributes to realize retail-driven technology, and technology to promote the realization of

retail production and cooperation. Retail and technology integration of the new business model to enhance the attractiveness of enterprises and improve online profitability growth.

From the perspective of internal environment, Yonghui is still actively exploring new retail model, and utilizing its own advantages to finance from the capital market, so as to achieve economic win-win situation. Yonghui is still adopting the development strategy. In the future, it should focus on how to maintain stable growth after the market share reaches the strategic target. In 2020, Yonghui will reorganize and integrate its various business formats, among which The MINI point of Yonghui will basically cease operation. In the future, it will focus on the market of high-end fresh food and agricultural products and invest a lot in Bravo business format. The outbreak of COVID-19 has accelerated the transformation of consumer psychology and behavior, as well as the expansion of community group-buying. The speed of market sinking, digital reform and business format evolution are all accelerated as well. In the future, Yonghui should adopt corresponding prevention mechanism to prevent the entry of innovative ways such as business risks and community group buying. Overall, Yonghui is entering a benign period of development.

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