

Research on the Application of Suning Cloud Commerce Company's Cash Flow Statement

Hui Sun

School of Management, Xi'an Engineering University, Xi'an City, Shaanxi Province, 710000, China

Abstract: This article is based on research on cash flow both domestically and internationally, with Suning Yunshang as the cornerstone. The enterprise cash flow management materials introduce the cash flow situation of business, investment, and financing activities, identify some problems in the company, and analyze the corresponding reasons: poor awareness of cash flow management, incomplete comprehensive budget system, and long cash turnover cycle. Propose cash flow management and other optimization solutions to promote the company's development.

Keywords: Cash flow; Proportion analysis; Trend analysis.

1. Introduction

For enterprises, the importance of cash flow is like their dependence on air. From the beginning, companies invest in cash to configure factories, purchase equipment, pay for raw materials, labor costs, and resell finished products to achieve ultimate value creation.

The long-term financial crisis and corporate bankruptcy cases have been the result of cash flow management errors, but this also provides us with profound lessons. For example, Bear Stearns, the leader of investment banking, ignored the risk of pursuing high profit returns and a large amount of debt operations, leading to cash flow disruptions. "China Puma" once occupied the supermarket market and continuously expanded its business scope, but it quickly disintegrated and traced back to a lack of cash flow management. Shi Yuzhu, Chairman of Juyi Network, often said, "Enterprises face cash flow problems. Bankrupt companies may not necessarily incur losses, but if cash flow decreases, the company will go bankrupt. From this perspective, cash flow management is an important component of financial management in today's companies.

2. Using the Cash Flow Statement to Analyze the Financial Situation of Enterprises - Taking Suning Yunshang as an Example [1]

(1) Introduction to Suning

Suning Yunshang was developed from Suning Electric Group and was established on December 26, 1990, with its headquarters located in Nanjing. So far, Suning has nearly 13000 offline physical stores. In July 2004, Suning Home Appliances Co., Ltd. was successfully listed in Shenzhen, laying the foundation for the company's future development. With the rise of e-commerce, Suning seized the opportunity and joined the internet department, gradually transitioning from traditional home appliance retail enterprises to the internet, and released a "cloud commerce" model of "warehouse merchants+retail service providers". In 2013, the company stated that due to changes in its business, its name was changed to "Suning Cloud Commerce".

(2) Suning Cash Scale and Comprehensive Analysis of Financial Situation

① Analysis of the trend of changes in net cash flow

Suning's net cash flow in operating activities, investment activities, and financing activities is shown in Figure 1 below

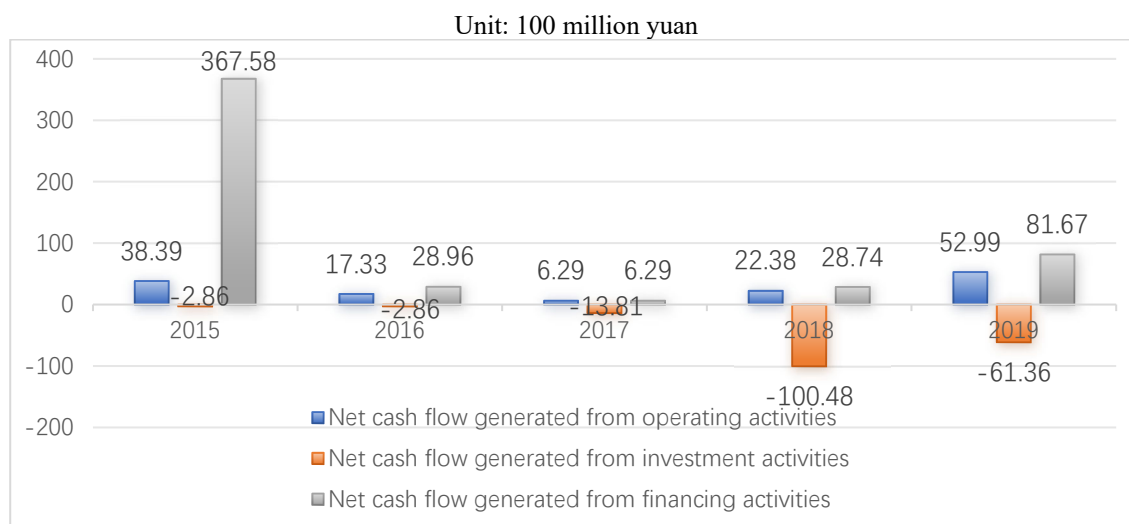


Figure 1. Net cash flow of Suning Cloud Commerce from 2015 to 2019

As shown in Figure 1, from 2015 to 2019, the net cash flow of Suning's operating activities fluctuated relatively significantly. The net cash flow generated from investment activities continues to be relatively low, mainly due to Suning's increase in a series of investment activities, resulting in an increase in investment cash outflows; The net cash flow generated by financing activities also fluctuates relatively large, with a minimum of 628.54 million yuan in 2017 and a

maximum of 365686 million yuan in 2015.

② Comparative analysis of cash flow and outflow structures

A comparative analysis of the cash flows and outflows from Suning Cloud Commerce's operations, investments, and financing activities is shown in Figure 2 below

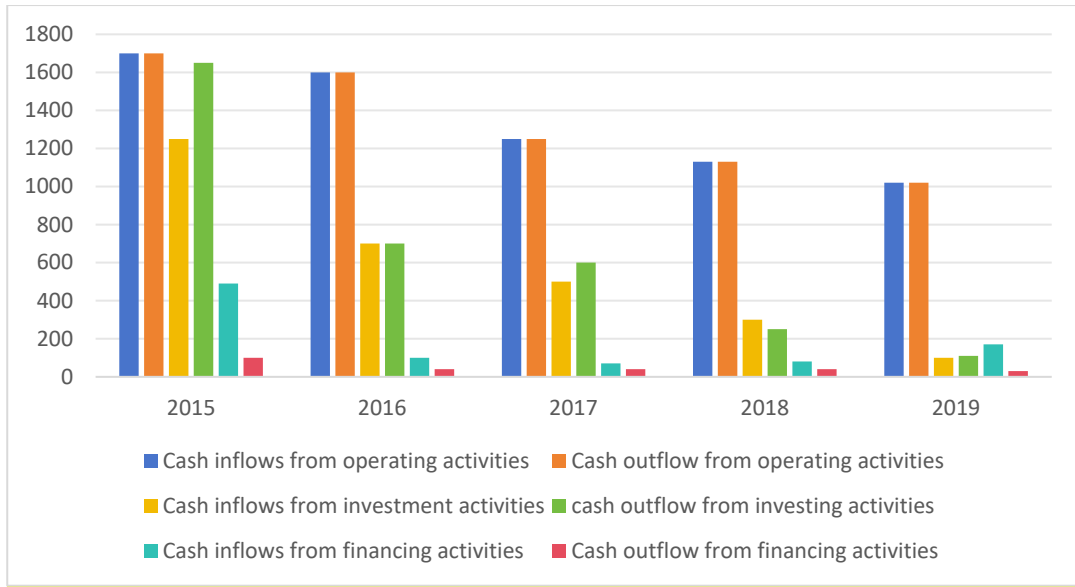


Figure 2. Cash Flow and Outflow Histogram of Suning Yunshang from 2015 to 2019

From Figure 2, it can be seen that in Suning Cloud Commerce's cash flow, the largest proportion is in operating activities; The proportion of cash flow generated from investment activities has been decreasing year by year, while the cash flow generated from operating activities has also

been decreasing year by year.

③ Debt paying ability analysis

A. Analysis of short-term solvency

Table 1. Suning Yunshang Cash Flow Ratio (December 2015 to December 2019)

Unit: 100 million yuan

Date/Indicator	2015.12	2016.12	2017.12	2018.12	2019.12
Net cash flow from operating activities	52.99	22.38	-13.81	17.33	38.39
Average current liabilities	384.5	423.3	427.7	517.9	536.0
Cash flow ratio (%)	13.78	5.29	-3.23	3.35	7.16

From Table 1, it can be seen that Suning Yunshang's cash flow ratio experienced significant fluctuations from 2015 to 2019, showing a trend of first decreasing and then increasing; As Suning Cloud's current liabilities continue to rise, the cash flow ratio has also been affected to some extent. At that time, Suning Cloud Commerce reduced the use of monetary funds to purchase a large amount of real estate such as houses and

equipment, in preparation for Suning Cloud Commerce's transformation strategy. Therefore, in recent years, Suning Cloud Commerce's debt paying ability has weakened, financial risks [3] have been high, and the equity security of creditors has weakened, bringing certain challenges to the enterprise's fundraising.

B. Analysis of long-term solvency

Table 2. Suning Yunshang's Total Cash Debt Ratio (December 2015 to December 2019)

Unit: 100 million yuan

Date/Indicator	2015.12	2016.12	2017.12	2018.12	2019.12
Net cash flow from operating activities	52.99	22.38	-13.81	17.33	39.39
Average balance of liabilities	419.04	503.00	531.03	544.04	616.98
Cash to total debt ratio (%)	12.65	4.45	-2.60	3.19	6.22

From 2015 to 2019, Suning Yunshang's cash to debt ratio showed a trend of first decreasing and then increasing, and in 2016, it decreased by nearly 8%. This is because in 2016, Suning Yunshang needed more funds to support its strategic transformation, resulting in more payable bonds and long-term loans, and an increase in the level of corporate debt operations; In 2019, the cash to debt ratio of enterprises increased to 6.22%, which is closely related to the cooperation with Alibaba [2], and also improves the long-term debt repayment ability of the enterprise.

④ Profitability analysis

From the above table, it can be seen that the sales to cash ratio has slightly decreased, indicating a decrease in the profitability and quality of the enterprise. After strategic transformation in 2016, the same pricing policy exited Suning Electric's online and offline operations, resulting in a decrease in the company's net profit. Additionally, due to poor management and low fund utilization, the company's related costs increased and profitability decreased. In 2016, the cash recovery rate of total assets of enterprises decreased by nearly 4%, mainly due to the launch of the cloud business model in 2016, which continuously optimized the online sales industry chain. At the same time, store sales decreased, the net profit of the enterprise decreased, and the return on total assets decreased. The overall profitability of Suning Cloud Business was poor.

3. Problems with Suning Cloud's cash flow

(1) The issue of cash flow trends

In 2015, the net cash flow generated by corporate operating activities was relatively high, indicating that the cash flow generated by operating activities could meet the cash flow needs. In addition, negative financing activities were active, and the cash outflow from investments mainly came from cash flow generated by operating activities and financing generated by internal flows; In 2016, the net cash flow generated from operating activities decreased, and the company's sales were in a weak state, which may also lead to a contraction in the company's financing activities; In 2017, operating, investing, and financing activities led to a decrease in net cash flow, mainly due to a decrease in the company's sales revenue; The increase in cash flow generated by investment activities in 2018 indicates an increase in the company's investment.

(2) The issue of cash flow outflow

From 2015 to 2019, Suning Yunshang's capital outflow increased, especially in 2016 and 2019, with the largest increase in capital inflows from investment activities. Except for the relatively small increase in cash inflows from operating activities in 2018, all other years have steadily increased; From 2015 to 2019, cash outflows from financing activities remained generally flat, but the significant increase in cash outflows in 2019 was due to the excessive financing cash flow and the increase in financing costs. Although the net profit of the enterprise is negative, this fund will bring profits to the company in the future. The amount raised by Suning Cloud Commerce and the net cash flow generated from business activities are both positive, and the majority of the cash flow generated from business activities comes from selling goods and providing services, indicating that the company can provide strong financial support for future

development.

(3) Cash flow issues in the procurement process

With a strong sales process, suppliers have a greater say, thus creating "floating cash flows on their books to fill funding gaps and expand transaction scope and value. The further improvement of the capital trading system in the retail process has accelerated the expansion of institutions. Although this capital trading system can improve the company's working capital management performance in the short term, it cannot reflect its true competitiveness in the market. At present, the turnover period of Suning's cloud business account exceeds 100 days, which may cause the following problems: increasing the company's financial risk and the turnover period of the payday account, high payment pressure from institutions, and suppliers' unwillingness to provide preferential credit policies, causing Suning to suffer from a shortage of funds.

(4) The issue of cash flow in the marketing process

Suning Cloud Commerce has a large inventory share and a long turnover period in the marketing process. With the rapid development of online business and the integration of online and offline, the company's network coverage continues to expand, inventory scale increases, and inventory management business still needs to be more specialized. However, the level of cloud business management has not improved, resulting in an increase in inventory turnover rate.

(5) Problems with cash flow in financial activities

The turnover period of Suning Yunshang's financial activities was 103 days in 2015 and decreased to 91 days in 2016. The turnover period has improved, but the management level still needs further improvement. From the perspective of the entire supply chain, on the one hand, Suning Cloud Commerce has obtained commercial credit financing through the use of accounts payable, invoices payable, and other accounts payable, increasing the liquidity of the company's books. The large amount of cash in the upstream and downstream supply chains has led to a continuous increase in the turnover period of financial management business, affecting fund management performance.

4. Analysis of the Reasons for the Cash Flow Problem of Suning Cloud Commerce

(1) Motivation of cash flow changes in operating activities

In 2016, when Suning Cloud Commerce implemented the O2O [4] policy, it required a large amount of investment and capital reserves, and its operating activities also required a certain amount of profit to avoid a break in capital flow. If business activities continue to deteriorate, it will inevitably cause repayment difficulties. Based on the annual report data, the cash inflows for 2016 and 2017 show that Suning Yunshang is under great pressure and has been conducting large-scale fundraising and investment since its operations were still unstable. Based on the cash growth rate from 2016 to 2018, the online and offline integrated platform built by Suning Cloud Commerce in 2016 has invested from multiple perspectives, increased enterprise costs, and reduced profits; In 2017, the overall profit margin increased compared to the previous year. However, with a decrease in operating payables, non recurring income increased, resulting in a negative net cash flow from operating activities. From 2017 to 2018, non operating income increased, and Suning

Yunshang turned losses into profits. In 2018, the acceptance bills of Suning Yunshang Bank increased by 1.448 billion yuan, but this increase did not become a turning point for the cash ratio in 2019. Therefore, the increase in cash flow from operating activities is essentially due to the improvement of the reputation of the enterprise. If the reputation of the enterprise decreases, the subsequent repayment cycle will be shortened, and the cash flow from operating activities of the enterprise will be compressed.

(2) Motivation of cash flow changes in investment activities

According to the analysis in Chapter 3 above, we can see that the changes in cash flow from investment activities mainly have two impacts. The outflow of investment activities by enterprises in 2016 was an increase in purchasing bank wealth management products. In October of the same year, Suning Yunshang made a large-scale investment in PPTV [5], but this investment did not immediately benefit. The 2017 Suning Yunshang annual report also showed that the losses caused by the investment in PPTV had reached nearly 29.8471 million yuan. The subsequent improvement in cash flow from investment activities was due to the adoption of innovative business process models by 11 stores, resulting in an increase in cash flow. In 2019, performance investment returns improved, but investments were limited to bank wealth management products and the money market. This kind of investment itself is speculative behavior, which reduces the efficiency of capital allocation and makes the company operate in debt with great risks. Therefore, the company will inevitably choose to adopt new operating models and equity exchange methods to optimize the treatment of debt assets.

(3) Reasons for changes in cash flows from financing activities

In 2015, Suning Cloud Commerce collected online and offline retail funds for social investors and issued 5-year fixed interest rate bonds. In combination with offline investors' inquiry and placement, it absorbed 9.133 billion yuan of funds and used this funds to construct a logistics center. In 2018, the remaining 1.812 billion yuan was purchased from commercial banks' wealth management products and breakeven wealth management products such as Everbright Bank, which lost the time value of the funds. The low yield of wealth management products affected the company's profitability in utilizing idle funds. Overall, the fundraising method adopted by Suning Cloud Commerce has optimized its operations. Although the logistics center does not directly help with profitability, it is greatly beneficial for long-term development.

5. Provide Suggestions for The Development of Suning Cloud Commerce Based on Analysis

(1) Suggestions on solvency

From 2015 to 2018, Suning Cloud Commerce's short-term borrowings far exceeded long-term borrowings, and its main source of financing was its own funds. Therefore, whether expanding new businesses or maintaining operations, Suning Cloud Commerce was able to carry out corresponding fundraising and investment activities [6], moderately increasing the borrowing of Western Airlines, while reducing its short-term borrowings, thereby reducing its debt, balancing its capital structure, fully utilizing leverage, and

increasing profits.

(2) Suggestions for company management

A person of ability is the key to the company's development, therefore Suning Cloud Commerce needs to improve the quality of relevant personnel. With the strategic adjustment of Suning Cloud Commerce, the business scope continues to expand, and the market share continues to increase. However, the personnel management level cannot keep up with the company's development, making it difficult to effectively utilize the company's assets. Therefore, enterprises need to comprehensively and efficiently cultivate employees and improve business capabilities. In addition, inventory management is crucial for a marketing enterprise. In order to prevent cash flow obstruction caused by inventory backlog, the enterprise adopts non proactive inventory management on the basis of ensuring sufficient supply, reducing inventory costs, and improving inventory turnover.

(3) Suggestions on fund utilization

Suning Cloud's private investment should expand channels, improve allocation efficiency, reasonably utilize the time value of funds, and strengthen cost control. In terms of financing, it is necessary to control the financing scale according to the situation of the enterprise. From financial reports in recent years, it can be seen that the overall procurement expenses generated by Suning Cloud's operational activities have shown a growth trend, indicating that the cost of purchasing goods is too high. In addition, the payment of sales and management expenses should also be precise. Strengthen internal management of enterprises and control management costs; Strengthen the internal logistics system, reduce the operating costs of enterprises, and improve the company's profitability.

(4) Suggestions for developing abilities

Since its establishment, Suning Cloud Commerce has continuously strengthened technological innovation, kept up with the times, and won customer praise. For many years, chain stores have provided consumers with a good experience. After renovation, they have adopted an integrated online and offline operation method, which not only improves customers' shopping experience but also reduces the price of goods, solving the contradiction between reality and photos. Suning Cloud Commerce has utilized years of reputation to reform its business model, making its business more professional and personalized, increasing competitiveness, and enhancing its brand image. In addition, it is necessary to strengthen information technology construction. The transformation of enterprises has increased investment in the Internet, and by introducing technical talents, the level of information technology has been improved. Suning Cloud Commerce can obtain more promotional information online, understand customer needs, establish long-term and stable partnerships with customers, and improve customer satisfaction and loyalty. In addition, it is necessary to continuously improve the logistics industry of Suning Cloud Commerce. Suning Cloud Commerce has two logistics methods, one is through freight forwarding and the other is through after-sales service. Therefore, Suning Cloud Commerce should establish a logistics alliance to improve logistics efficiency and service quality, increase capital turnover, and reduce inventory. On this basis, cloud computing is utilized to achieve full process management and monitoring of logistics, in order to save costs and improve efficiency.

6. Conclusion

After a detailed analysis of Suning Yunshang's cash flow in recent years, the article concludes that Suning Yunshang is a leader in China's home appliance retail industry, adopting a diversified, efficient, and low-cost development strategy. Although its development did not achieve ideal results after transforming the "cloud" development mode, it even brought some negative consequences. But now that we have entered the internet age, its "cloud" development strategy has become very important. It must keep up with the times in order to survive in this competitive home appliance retail industry. Starting from the financial situation and various indicators of Suning Cloud Commerce in recent years, the article reveals the current profitability and some problems of Suning Cloud Commerce, and proposes corresponding countermeasures. Since the agreement reached between Suning Cloud Mall and Alibaba, Suning Cloud's market share has been continuously increasing, and there is great potential for future development. I hope Suning Cloud can overcome its own difficulties, promote the development of the enterprise, improve profitability, and achieve higher and farther goals.

References

- [1] Su Jian, Wang Yang. Research on Strategies for Optimizing Capital Structure - Taking Suning Yunshang Group as an Example [J]. Liaoning Economic Journal, 2019 (06): 34-35.
- [2] Qi Mengzhen. Financial Risk Control Based on Enterprise Cash Flow - Taking Suning Yunshang as an Example [J]. Jiangsu Science and Technology Information, 2018,35 (14): 29-31.
- [3] Wang Juan, Pang Xianjun. Financial Statement Analysis of Suning Yunshang [J]. Modern Marketing (Next Issue), 2019 (01): 207-209.
- [4] Xu Jie Research on Financial Strategy Evaluation of Suning Yunshang's O2O Transformation [D]. Xi'an University of Petroleum, 2019.
- [5] Liu Ting Research on the Performance of Suning Cloud Business's Acquisition of PPTV [D]. Nanjing University of Posts and Telecommunications, 2018.
- [6] Ouyang Yi Research on Risk Identification and Control of Diversified Investment by Suning Cloud Merchants [D]. Dong Foreign Language and Foreign Trade Studies, 2018.