The Financial Risk Analysis and Prevention of Electrical Industry under the Similar Financial Mode---Base on One Electronics Company

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Abstract: The sales of electrical appliances occupy a large market in Chinese Home electric appliances retail chain. The key factor for the rapid development of the electrical appliance industry is the delayed delivery of accounts to occupy suppliers' funds, and then use these funds for scale expansion, so that forming a 'Similar Financial mode' financing mode. This paper analyzes the risks brought by 'Similar Financial mode' to electrical enterprises and puts forward prevention and control measures accordingly.

1. Introduction

The specific meaning of similar financial mode is defined by Xianping Lang, who is an economist, through long-term and extensive research on the similar financial mode of an electronics company. The Similar Financial mode is the same as the ommercial Banks, it can absorb and occupy the funds of all parties in the supply chain with low or no cost, and provide them for long-term use by rolling mode, so as to obtain the business model of rapid expansion and development. Although it can help enterprises expand in scale quickly, it also becomes a burden for enterprises due to occupy a large amount of funds from suppliers [1].

2. The Reason of Electric Industry Use Similar Financial Mode

2.1 The Rugent Need for Funds

The fund is an important tool for the enterprise operation and development. The similar financial mode is to have a large amount of fund in a short period of time. Due to the increasingly crowded appliance retail market, the competition between peers is more and more fierce. In order to seize market share, we start a price war, making the commodity prices be lower than the industry average price to sale. But the company's costs do not fall, and operating profits fall, which result in there is no enough capital to keep operating normally. In addition, besides using the price war to grab market share, it can also grab share by expanding the number of stores. This mode of operation requires a large amount of fund to provide support, and it is not enough by only relying on profit. Once adoptes this mode of operation, it should need financing to provide support.

2.2 Other Financing Methods are More Complex and Difficult

Generally, there are two types of financinig methods, one for long-term financing and another for short-term financing. While the long-term financing is stock and debt. However, these two methods have a high threshold, and have corresponding standards for profitability, total assets, etc. Besides, the review process is slow and complicated, so that they cannot provide enough fund for enterprise in a short time. The common way of short-term financing is to borrow money from Banks. Banks have corresponding standards for borrowing enterprises, such as providing relevant documents of financial capacity, and they only borrow the money to enterprise after repeating evaluation to ensure the enterprise can have the enough repayment capacity. However, the long process will makes it impossible for some enterprises that are already in operational crisis or lack of capital to tide over the difficulties.

2.3 Low-Cost Financing

Because the fund has a time value, so that any kind of financing has a cost. Generally, the cost of financing is interest or dividend, while the cost of financing in the similar financial mode is to use the business credit of the enterprise, not to rely on the monetary value, so there is no impact to the tangible assets of the enterprise, nor does it affect the income statement of the enterprise. Measured by the time value of capital, this method is an efficient and low-cost financing method for enterprises.

According to the data released by one electrical company, it generally needs 1.2 million yuan to set up a traditional electrical appliance shop. The cost of digital stores is about 0.3 million yuan; And Large stores cost around 15 million yuan. In addition, the new store opening should be considered the problem of stock rotation, so that should be prepare the inventor of the first month to carry out the subsequent sales smoothly. Therefore, the cost of opening a new store for the electrical company is about 16.5 million yuan, and about 30 million yuan for opening a large shopping mall. The electronics company added 1,884 stores between the end of 2005 and the end of 2017. Just to consider the new opening stores, the company need 310.86 million yuan by the lowest cost, and should need 23.91.2308 million yuan averagely each year. According to the balance sheet of this electric appliance company, the cash and the average annual value of cash equivalents was 6,503,420,500 yuan from 2005 to 2017, the radio of the new stores required cash and the average annual value of cash equivalents is as much as 36.77%. This shows that it is hard to pay for new stores with cash. Therefore, it adopts the ‘Similar Financial mode’ to occupy suppliers’ funds for store expansion and occupy market share.

3. The Financial Risk of Electric Industry in Similar Financial Mode

3.1 Unstable Fund Structure

Since going public of one electronics company, the company's liabilities are basically composed of the accounts payable and bills of suppliers. The amount of accounts payable and bill are large, which accounting for a significant proportion of current liabilities, and the current liabilities account for the majority of total liabilities. Although the share has fallen in the past two years, it accounts for almost half of total debt. At the same time, it can be seen from the balance sheet that the amount of short-term loans and long-term loans is small, and the proportion of non-current liabilities is small, and even there were no non-current liabilities in 2005. It can be seen that this company relies on Similar Financial mode, to occupy upstream funds excessively, rarely relies on short-term borrowing, and mostly relies on accounts payable, which lead to the unstable fund structure.

Although the financing cost of the similar financial mode is low, this mode will lead to the simple structure of the liabilities for this electronics company. When the company ran into operational problems and fail to pay for the goods when the bill comes due, the suppliers start to squeeze, the electronics company will face huge financial risk with the rupture of capital chain, the consequence will be serious [2]. In addition, the suppliers will also suffer the economic crisis, and will form the chain debt with the enterprises, thus undermining the development of the company and suppliers.

3.2 The Low Ability of Short-Term Debt

Short-term solvency is generally reflected by the current ratio, and the higher the current ratio, the stronger the cashability of the enterprise [3]. According to the calculation, the current ratio of the electronics company is relatively low. According to the analysis of current ratio in table 1, the current ratio even reached 0.92 in 2018. This is due to the large amount of funds occupied by suppliers and the high proportion of current liabilities, resulting in a single liability structure. This electronics company has poor short-term liquidity, poor debt solvency and high risk of debt solvency, which is not conducive to the economic development of the enterprise.

Table 1. The analysis of current ratio

Item / Year	Current Assets	Current Liabilities	Current Ratio[%]
2016	3669254.40	3006426.90	1.22
2017	3657280.40	3534366.60	1.03
2018	3720852.70	4060444.60	0.92

3.3 The Strained Relationship with Suppliers

According to the prospectus of one electronics company, the company makes a lot of purchases and establishes the contact with suppliers directly. Around 80 percent of this were purchased from the manufacturers and the rest were purchased from distributors. Generally, in order to occupy the market share, the electronics enterprises will delay the payment of funds to suppliers, which will result in the insufficient funds for suppliers to carry out follow-up operations. This can be illustrated by the proportion of income from suppliers in table 2, and the proportion is less and less. If the suppliers' products are sold in stores, and the company will charge some fees from suppliers, such as entrance fees, shelf fees, etc., which strains the relationship between the company and suppliers.

Table 2. The proportion of income from suppliers

Item / Year	Supplier incoming [ten thousand yuan]	Other incoming [ten thousand yuan]	The proportion of the supplier incoming in other incoming[%]
2005	49271	74054	66.53
2006	88834	125178	70.97
2007	184278	254688	72.35
2008	251914	326624	77.13
2010	216665	323905	66.89
2011	207935	327643	63.46
2012	55218	159665	34.58
2013	49670	177273	28.02
2014	47332	206248	22.95
2015	46111	198449	23.24

4. The Prevention and Control of Financial Risk

The stability of fund structure is the basis of enterprise economic development, and the stability of fund structure can prevent financial risks [4]. Adjust the proportion of main business income to reduce the unstable factors of main business income. To adjust the structure of liabilities, which will reduce the proportion of current liabilities, increase the short-term and long-term liabilities, increase the proportion of non-current liabilities, and enhance short-term solvency. For the sustainable economic development of enterprises and better similar financial mode, to resist external factors and reduce financial risks, it should adjust the debt structure and stabilize the fund structure.

To develop a competitive cooperation relationship with suppliers, the enterprises should try to shorten the holding time of capital occupying and reduce the suppliers' capital occupied by long-term debt and other financing methods [5]. When the suppliers are faced with capital problems, the enterprises can establish cooperation with the upstream and downstream of the supply chain, and defer itself bank credit to upstream and downstream enterprises, to improve the overall financing capacity, and solve the funding problem of suppliers, which will achieve a win-win situation at last.

Conclusion

Based on the theory of similar financial mode, this paper studies the effects and risks of applying similar financial mode in electric appliance chain enterprises through financial analysis. It can be seen from the research that the similar financial mode is a double-edged sword as a new financing method, which should be used appropriately. When electric appliance chain enterprise needs fund, they can apply this kind of mode appropriately. The key to the success or failure of this financing mode relay on the management and application of the enterprises themselves. Enterprises should pay attention to risk prevention and control and at the same time should deal with the relationship with suppliers. However, how can the similar financial model develop well, manage redundant funds, and do risk prevention and control well is the key question that should be worth studied for a long time.

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