

Case Study on Working Capital Management

——Take Haier Group as an Example

Hongxia Li ^a, Chongrui Lu ^b

School of management, Xi 'an university of science and technology, Xian,710000,China

^a406144519@qq.com, ^b1299876181@qq.com

Abstract

the fundamental of the company's survival and development is the enterprise's profitability. Among many factors, working capital has the characteristics of strong liquidity and high flexibility, so giving full play to the effectiveness of working capital has a decisive impact on the enterprise's profitability. This paper takes Haier Group as the research object, analyzes the current situation of working capital management of Haier Group in recent five years through relevant financial data, and analyzes the existing problems of working capital management from a new perspective, so as to provide reference for Haier and other enterprises in the same industry.

Keywords

working capital; capital turnover; capital structure.

1. Introduction

1.1. Research Background and Significance

1.1.1. Research Background

In recent years, with the rapid and rapid development of China's economy, the management of working capital is constantly improving, and the company's competitiveness is also constantly strengthening. It can solve the huge pressure brought by the economic crisis under certain circumstances. It has a strong liquidity in all assets. It is also directly related to whether the company's business activities can be carried out smoothly.

As we all know, in the survival of enterprises, the pursuit is to maximize profits. In order to achieve this goal, the continuous operation of various resources is required to obtain profits. Working capital refers to the difference between the current assets used by an enterprise in daily use and the current liabilities. Because of its strong liquidity and active use, it plays an important role in the total assets.

1.1.2. Research Significance

(1) Working capital operation is the source foundation of the company's overall monetary operation. In the process of capital circulation, the function of working capital is mainly reflected in its value conversion function. It not only includes the original value of current and non current assets, but also the new value realized through processing. And these final assets will be used for a new round of enterprise production or fixed asset investment, and ultimately ensure the sustainable profitability of the enterprise.

(2) The operation of working capital is the foundation of further development of the enterprise. The working condition of working capital is directly related to each link of production, and it circulates continuously through the way of "currency product currency". In this process, only when the working capital is in a good circulation state, can the enterprise be

maintained in all stages of procurement, production, sales, etc., and the enterprise can survive and develop better.

1.2. Research Methods

(1) Literature analysis (2) statistical analysis (3) theoretical and practical analysis

1.3. Main Contents of the Study

In this paper, the idea of "putting forward problems, analyzing problems and solving problems" is adopted. First of all, understand the current situation of working capital management of Haier Group, discuss the problems and causes of all links, and put forward some constructive suggestions for the comprehensive study of each link. By elaborating and putting forward specific countermeasures to solve the problems one by one, Haier Group will pay more attention to the management of working capital, and the management methods will be more standardized and scientific, so as to improve the management level of the company, increase the economic benefits of the company and provide reference for Haier and other enterprises in the same industry.

1.4. Literature Review at Home and Abroad

1.4.1. Foreign Literature Review

Obama, Barack h. (2015) believed that the management and design of working capital is beneficial to enterprises [1].TSU Ting Tim Lin (2015) pointed out the urgent need for current working capital reform [2].

1.4.2. Domestic Literature Review

Sun Yanqiu (2015) introduced how working capital affects the development of enterprises [3]. Wang Zhuquan, Feng Yongmei and sun Jianqiang (2013) pointed out how to make a more comprehensive and complete definition and more detailed classification of working capital. Some constructive suggestions are put forward for the urgent reform of working capital management in China [4].

2. Analysis on the Current Situation of Working Capital Management of Haier Group

As a traditional household appliance enterprise, Haier Group's operation is closely related to the company's working capital management. Let's further understand the working capital management of Haier Group in recent years through the analysis of Haier Group's relevant working capital data.

2.1. Inventory Management Status Analysis

Generally speaking, the liquidity of a company's assets is closely related to its inventory. The level of inventory turnover rate can simultaneously explain the company's use status of relevant assets and the management status of commodity sales in the production process. The turnover rate of the company's inventory is related to the conversion speed of goods and monetary capital and the quality of inventory management.

Table 1. inventory turnover rate and inventory turnover days of Haier Group

Haier Group	2012.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31
Inventory turnover rate (Times)	9.14	9.25	8.92	8.02	6.90
Inventory turnover days (days)	39.40	38.91	40.34	44.87	52.16

It can be seen from the table that the inventory turnover rate of Haier Group enterprises is declining year by year, mainly due to the decrease of sales volume. At the same time, the turnover days of inventory are increasing year by year. This shows that Haier Group's inventory management is deteriorating and its sales are weakening. It shows that the capital utilization efficiency of Haier Group is low.

2.2. Analysis of Accounts Receivable Management

As far as all enterprises are concerned, the turnover rate of the company's accounts receivable is closely related to its capital recovery.

Table 2. accounts receivable turnover rate and turnover days of Haier Group

Haier Group	2012.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31
Accounts receivable turnover rate (Times)	21.94	20.29	18.45	15.69	12.95
Receivable turnover days (days)	16.41	17.74	19.51	22.94	27.80

It can be seen from the table that the turnover rate of accounts receivable of Haier Group is declining year by year because of the decrease of credit sales income, which leads to the slow recovery of accounts receivable, and at the same time, the turnover days of accounts receivable are increasing year by year. It shows that Haier Group's efficiency in recovering receivables is low, or its credit policy is too loose, which indicates that working capital liquidity is weak.

2.3. Analysis of Sales Revenue and Cost

The sales status of the company's products is directly related to its revenue and cost, which indicates the company's operation status. It also has a certain effect on the financial data related to inventory and accounts receivable. So as to reflect the working capital management of the enterprise.

Table 3. sales revenue and cost of Haier Group

Haier Group	2012.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31
Sales revenue (RMB 100 million)	798.566	864.877	887.754	897.483	1190.658
Sales cost (RMB 100 million)	597.039	645.861	643.452	646.585	821.269

It can be seen from the table that with the continuous decline of Haier's sales volume, the sales revenue also decreases. meanwhile. At the same time of the slow growth of sales revenue, the cost of sales is growing rapidly. This will inevitably lead to problems in working capital management of Haier Group.

2.4. Analysis of Profit Related Data

Profit can directly show the profit situation of an enterprise, indirectly show the product sales situation of an enterprise, and thus have a corresponding impact on the management of working capital.

Table 4. operating profit of Haier Group

Haier Group	2012.12.31	2013.12.31	2014.12.31	2015.12.31	2016.12.31
Operating profit (RMB 100 million)	52.699	61.685	77.366	64.523	71.176

It can be seen from the table that the growth of Haier Group's profit and revenue is synchronous. Since 2012, with the slow growth of sales revenue, operating profit has also increased slowly. It shows that the enterprise's credit income is more, and the recovery of accounts receivable is difficult.

2.5. Low Efficiency of Working Capital Operation

Under the current economic background, the main problems faced by the household appliance industry are market saturation and large inventory of products, which lead to the decrease of capital turnover speed of enterprises, the failure of enterprise capital to arrive in time, and the easy break of capital chain. Therefore, in the process of working capital operation, in order to ensure the safety of capital, Haier Group will borrow a large number of short-term loans and large-scale use of bills. This financial strategy makes the operation of working capital appear inefficient, affects the income of enterprises, and is not conducive to the growth of enterprise benefits.

When Haier Group adopts the method of borrowing a large number of short-term loans, the interest expenditure generated by the loan will increase the burden of the enterprise, and even aggravate the financial difficulties of the enterprise, and finally a vicious circle of working capital will occur. Facing the difficulty of capital turnover, Haier group chooses another way to maintain capital turnover by using a large number of bills. However, the discount of bills requires the enterprise to pay a large amount of interest, which is also an intangible burden to the enterprise, affecting the enterprise's income and reducing the operating efficiency of working capital.

2.6. Working Capital Liquidity is not Strong

As a member of household appliance industry, Haier Group is inevitably affected. Due to the influence of market saturation, rising human cost and other factors, on the one hand, when employing labor, the rising price makes it occupy more working capital of the enterprise; on the other hand, it is difficult to sell household electrical appliances, product backlog, occupy the working capital of the enterprise, and then delay the whole capital turnover speed of the enterprise. In order to achieve the current sales volume, Haier Group sells its products to customers on credit, which leads to poor liquidity of working capital.

3. Influencing Factors of Working Capital Management of Haier Group

When the state vigorously supports household electrical appliances enterprises, because of the strong demand for household electrical appliances, resulting in huge profits in the household electrical appliances industry, a large number of popular household electrical appliances enterprises represented by Haier, Gree, Midea, etc. have emerged in the country in recent years. The whole national household electrical appliances industry is full, while the demand for household electrical appliances has not increased so much, resulting in overcapacity. Let's analyze it in detail.

3.1. Inventory and Accounts Receivable Affect Working Capital Flow

3.1.1. Poor Product Sales

Inventory accounts for a large part of the total working capital. Accordingly, the better the inventory management is, the faster the working capital cycle is, and the more benefits are created. Haier's purchase of raw materials changes with the change of price; the sales of the company's products will be unsalable because they can't meet the needs of consumers, resulting in overstocked inventory and reduced capital liquidity.

3.1.2. There are Many Accounts Receivable and it is Difficult to Recover Funds

Because the competition between companies is relatively large. In order to achieve more sales, Haier keeps customers who buy its products on credit. However, if the enterprises sell on credit blindly and make the amount of accounts receivable exceed the reasonable range, it will not benefit the production and operation of the enterprises, but will lengthen the capital chain of the enterprises and drag down the further development of the enterprises. Even the formation of bad debts, resulting in the rise of enterprise operating costs.

3.2. Non Performing Assets Reduce the Operating Efficiency of Working Capital

Because Haier's customers are in arrears for a long time, some of them will inevitably become bad debts and cannot be recovered. In addition, in Haier's overstocked inventory, due to the change of inventory market price, the book value and fair value of some inventory are different, but the difference is not apportioned into the cost of the enterprise due to management negligence, so the inventory contains certain moisture. All in all, the accumulation of inventories, the increase of accounts receivable, and the purchase of fixed assets such as machinery and equipment all make the turnover rate of total assets of enterprises low and the turnover speed slow.

3.3. Unreasonable Use of Working Capital

Haier Group's inadequate and unscientific management of working capital is mainly manifested in the extensive way of financial management: on the one hand, it lacks a scientific and reasonable budget for the daily cash receipts and payments of enterprises, which is very arbitrary. In the long run, it will affect the utilization rate of funds and reduce the company's efficiency. On the other hand, Haier Group's usual practice for raw material procurement is to store a large number of raw materials when the price is reduced, and to reduce the purchase when the price is increased, which is a loose management method with great randomness.

4. Working Capital Management Measures of Haier Group

4.1. Strengthen the Management of Inventory and Accounts Receivable

4.1.1. Improve Inventory Management and Reduce Inventory

As an important hub to maintain the production, supply and marketing of enterprises, the scale change of inventory has a significant impact on the production and operation activities of enterprises. Sufficient inventory can not only ensure the planned production. To improve inventory management, we can start from the following aspects: formulating scientific and specific inventory management indicators; actively expanding sales channels and strengthening marketing; adjusting product structure and producing high-quality products.

4.1.2. Improve the Management of Accounts Receivable

In view of the increase of accounts receivable and the long recovery cycle of Haier Group, it is necessary for enterprises to control the number of accounts receivable and pay attention to the recovery of accounts receivable. Haier group can achieve its goal through the following

methods: linking rights and responsibilities; strictly controlling the object of credit sale; actively using credit discount.

4.2. Increase Monetary Capital Income

Through the analysis, it is found that the working capital of Haier Group is inefficient and has great potential. Therefore, we should: reasonably determine the amount of money held; reasonably use accounts payable.

4.3. Improve Working Capital Management Level of Managers

The development of enterprises must keep pace with the times. Haier Group aims at the current situation to improve the financial management, strengthen the financial budget, and make a good business plan. Haier should strengthen the strategy of zero working capital management and strengthen the implementation of value chain oriented management.

4.4. Reference to the Same Industry

All aspects of the production and operation of home appliance industry are inseparable from the company's working capital. The management mode of all its sources is connected and restricted. The company shall select and use the working capital management mode suitable for the survival and development of the enterprise according to the strategic objectives, available resources and the market environment. In addition, household electrical appliances enterprises should improve information transparency, strengthen the contact with suppliers and middlemen, on the one hand, strengthen the information monitoring in the links of purchasing raw materials and other production materials and distributing finished products, on the other hand, further improve the information system to optimize and integrate the supply chain of household electrical appliances enterprises, and better maintain and develop customer relations. Therefore, only by improving the business model and optimizing the allocation of resources can the company achieve its business objectives.

5. Concluding Remarks

With the increasing number of household electrical appliances enterprises in China, the survival and development of household electrical appliances industry are facing greater challenges, and the competitive environment is more intense, but the challenges also mean opportunities. In the face of challenges, managers should think more about the development path of enterprises, and enterprises need to have their own core technology to develop. If the enterprise wants to keep the high efficiency operation, it must implement the fine management. Combined with the specific operation of Haier Group, this paper discusses the lack of understanding of working capital, and gives some constructive suggestions from three aspects. However, working capital management is located in the complex internal and external environment of an enterprise. It should be effectively promoted according to the actual situation of the enterprise and select appropriate management methods.

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