

Analysis of Yili Corporation's Operating Capacity

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Abstract. In the development and operation of Yili Stock, dairy commodities are regarded as the important inventory of the company, and the storage volume of dairy commodities represents the scale and strength of the dairy company to a certain extent. With the continuous development and improvement of the socialist market economy, credit sales occupy a dominant position in sales, and accounts receivable, as one of the very important assets, consequently occupies an important position in the dairy products industry. Total assets, as an important indicator for comprehensively evaluating the operating efficiency and operating capacity of all assets of an enterprise, is a key indicator that cannot be ignored in the analysis of operating capacity. Therefore, this paper selects the inventory turnover ratio, accounts receivable turnover ratio and total asset turnover ratio of Yili shares to analyse, from which we find out the problems that may occur in the operation process of Yili shares, analyse and evaluate them, and give feasible suggestions.

Keywords: Operating capacity, Inventory turnover, Accounts receivable turnover.

1. Introduction

Operating capacity means the ability of an enterprise to use all types of resources in an integrated manner to obtain profit. Its main purpose is to measure the efficiency of the enterprise's operation and management by analysing and calculating the speed of the enterprise's asset turnover. The analysis of enterprise operating capacity is mainly composed of financial analysis ratios such as inventory turnover ratio, accounts receivable turnover ratio, current assets turnover ratio and total assets turnover ratio. These ratios reflect the operation of the enterprise's assets and capital turnover, as well as the enterprise's level of management and efficiency in the use of resources.

Good operating ability of enterprises, on the one hand, is conducive to the optimisation of the asset structure of enterprises, improve the efficiency of resource utilisation; on the other hand, it is conducive to the stabilisation and improvement of the financial situation, acceleration of the capital turnover, and the realisation of the healthy flow of funds, thus creating a good atmosphere for the development of the enterprise so that business managers can make the appropriate financial decisions, and foreign investors can make reasonable investment decisions, and it is also conducive to the creditors to make scientific credit decisions. In addition, it is also favourable for creditors to make scientific credit decisions.

2. Yili's Operating Capacity Analysis

2.1. Analysis of the current status of operational capacity

In the development and operation of Yili Stock, dairy commodities are regarded as the important inventory of the company, and the storage volume of dairy commodities represents the scale and strength of the dairy company to a certain extent. With the continuous development and improvement of the socialist market economy, credit sales occupy a dominant position in sales, and accounts receivable, as one of the very important assets, consequently occupies an important position in the dairy products industry. Total assets, as an important indicator for comprehensively evaluating the operating efficiency and operating capacity of all assets of an enterprise, is a key indicator that cannot be ignored in the analysis of operating capacity. Therefore, this paper selects the inventory turnover ratio, accounts receivable turnover ratio and total asset turnover ratio of Yili shares to analyse, from

which we find out the problems that may occur in the operation process of Yili shares, analyse and evaluate them, and give feasible suggestions.

2.1.1 Inventory turnover analysis

Inventory is a very important asset of a company. In the process of dairy industry operations, milk commodities are the inventory of Yili shares, inventory to a certain extent symbolises the size of a company, the more inventory represents the larger the company, the more powerful the company. The indicator to measure the amount of company's inventory stock is inventory turnover ratio, also called inventory turnover ratio, which is a comprehensive indicator for measuring and evaluating the management status of each link of the enterprise, including the purchase of inventory, put into production, sales recovery, etc. It reflects the capital realisation ability of the enterprise. It reflects the enterprise's ability to realise funds and the ability to sell goods. Its formula is:

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold (sales revenue)}}{\text{average inventory balance}}$$

For the dairy industry, the good or bad inventory management status directly affects the proper degree of current asset utilisation and total asset utilisation of the enterprise, and the change of inventory turnover ratio of Yili shares from 2016 to 2021 is shown in Table 1.

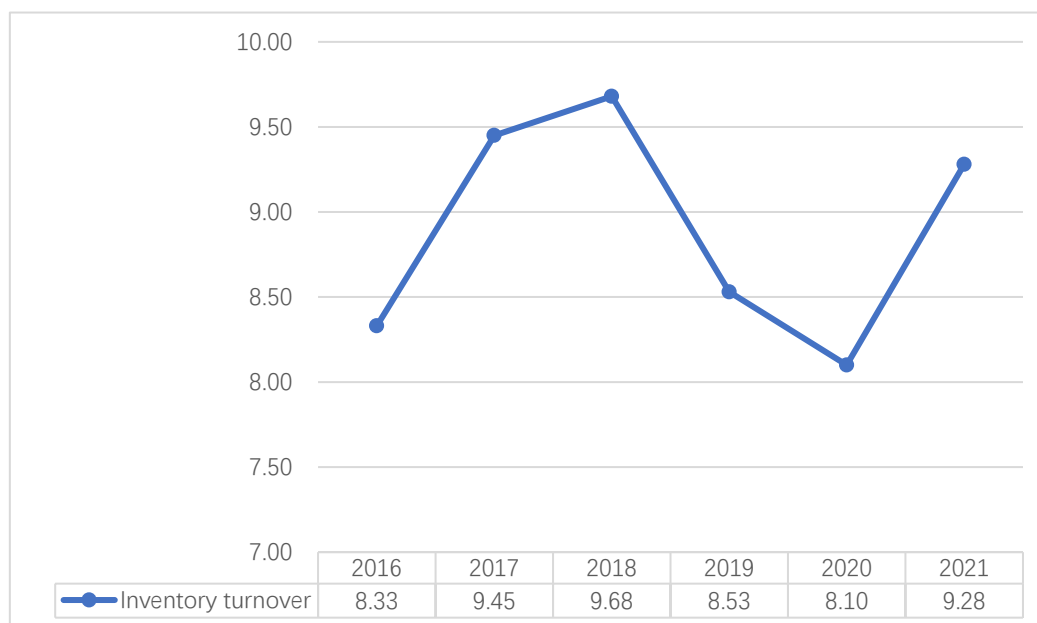


Table 1. Changes in Inventory Turnover of Yili Shares, 2016-2021

As can be seen from Table 1, the inventory turnover ratio of Yili stock has a general tendency to first rise, then fall and then rise from 2016 to 2021. the ratio gradually increased in each year from 2016 to 2018, which may be due to the fact that the enterprise has increased its inventory stock of dairy commodities in recent years in order to expand its business channels. As the enterprise is a leading dairy product with good sales volume, naturally there is not much inventory backlog. However, the inventory turnover ratio gradually declined from 2019 to 2020. Among them, the decline in 2019 is the largest, and if this downward trend continues, the supply of dairy products inventory is more than the market demand, the enterprise's excessive storage of dairy commodities is likely to incur the risk of inventory decline, which will bring huge losses to the enterprise, and the lack of sales will lead to excessive inventory build-up. Inventory turnover is also on a downward trend from 2019 to 2020 due to the impact of the New Crown Epidemic, where people are not able to leave their homes and offline outlets are stagnant in terms of merchandise sales. By 2021, the company's inventory turnover ratio is rising again, probably because the company sold its stalled inventory after a year of adjustments to open up online sales of dairy products. In conclusion, Yili's inventory turnover ratio for the last six years as a whole is unstable, which is not conducive to the development of a mature company.

2.1.2 Analysis of accounts receivable turnover ratio

Accounts receivable turnover, also known as the collection ratio, which refers to the average number of times accounts receivable are converted into cash within a certain period of time (usually one year), is an important indicator used to weigh the accounts receivable process of an enterprise. The formula is:

$$\text{Accounts receivable turnover rate} = \frac{\text{net credit sales revenue}}{\text{average accounts receivable balance}}$$

(Net credit sales revenue is the balance of sales revenue after deducting current sales and sales returns, sales discounts and concessions)

In recent years, the commercial trade credit policy is popularised, and the market has begun to prevalent to buy and sell products trading on credit. Reasonable accounts receivable turnover ratio helps to accelerate the turnover of funds and improve the efficiency of capital use, and the change of accounts receivable turnover ratio of Yili shares from 2016 to 2021 is shown in Table 2.

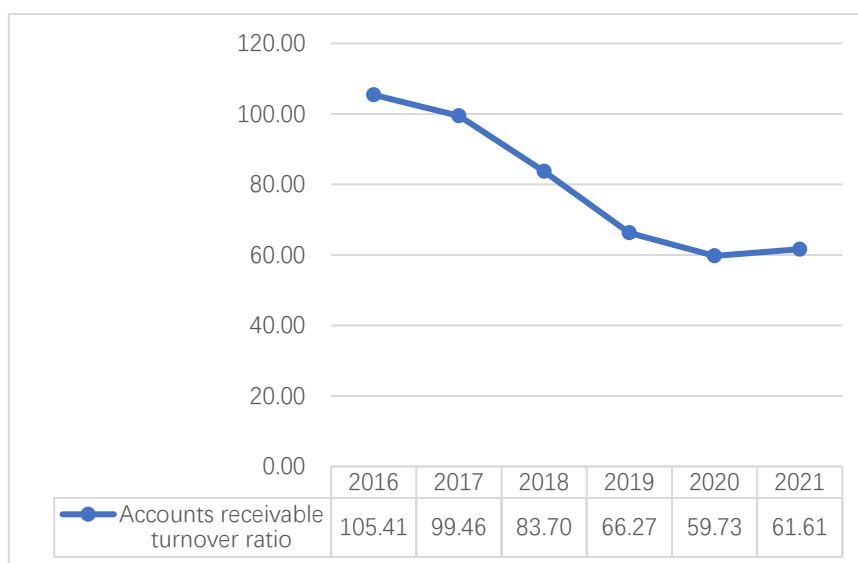


Table 2. Changes in Accounts Receivable Turnover of Yili Shares, 2016-2021

As can be seen from Table 2, the overall trend of Yili's accounts receivable turnover ratio is decreasing year by year. This may be due to the enterprise's overly loose management of accounts receivable, and relaxed credit policy for the sake of the eagerness to realise the goods sold on credit. Among them, the accounts receivable turnover ratio of enterprises decreased the most from 2018 to 2019, which may be due to the slowing down of accounts receivable turnover due to the implementation of overly loose credit policy by enterprises in order to promote their products. The yearly decrease in accounts receivable turnover ratio indicates that Yili's accounts receivable have a low collection rate and reduced realisation ability. In addition, it also shows that the risk of bad debt loss increases, which ultimately affects the company's capital turnover and hinders the company's running operation.

2.1.3 Analysis of total asset turnover ratio

The total asset turnover ratio, also known as the total asset turnover times, is an important indicator for the comprehensive evaluation of the efficiency of the utilisation of all assets and the quality of operation of an enterprise. Through the comparative analysis of this indicator, it can highlight the operational efficiency of the total assets of the enterprise in a certain period of time (usually one year), and is an important indicator for evaluating the operational efficiency of enterprise assets. Its formula is:

$$\text{Total asset turnover} = \frac{\text{sales revenue}}{\text{average total assets}}$$

The total asset turnover of Erie shares from 2016 to 2021 is shown in Table 3.

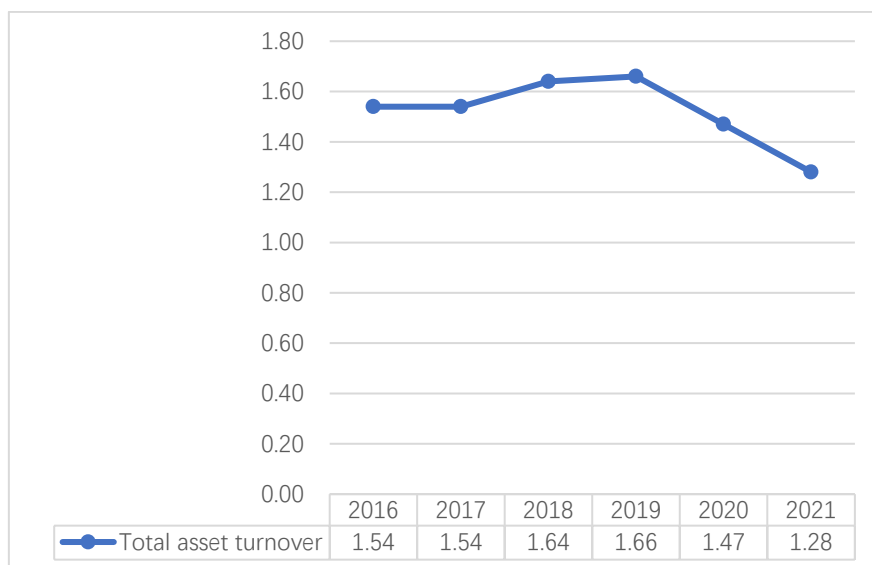


Table 3. Changes in Total Asset Turnover of Yili Shares, 2016-2021

As can be seen from Table 3, Yili's total asset turnover ratio is relatively stable from 2016 to 2019 and has a slight gradual upward trend, but it is decreasing from 2019 to 2021, and in response to the downward trend, the company is most likely affected by the new crown epidemic in 2020, which has led to a decline in total asset turnover ratio. This phenomenon will affect the company's operating ability and earnings level in 2020 and 2021. The change in the total asset turnover ratio of Erie shares is still within the normal range. However, if the company's total asset turnover ratio continues to decline falling out of the normal range, it reflects that the enterprise lacks a reasonable ratio of asset allocation, resulting in serious waste and idleness of assets and capital. This results in poor utilisation of assets, taking up a share of capital without making profits for the company, a phenomenon that will ultimately cause the company to lag behind its peers.

2.2. Problems in operational capacity and analysis of causes

2.2.1 Inadequate inventory management

As can be seen from Figure 1, the trend of Yili's inventory turnover ratio from 2016 to 2021 is unstable, and the inventory turnover ratio declines continuously in the three years from 2018 to 2020. The reason for the decline may be due to the fact that Yili shares have excessively increased the production of dairy commodities in order to expand sales channels, resulting in the production of inventories occupying more funds, or it may also be due to the serious homogenisation of commodities due to the successive influx of competitors into the market. And Yili Co. expects to increase the supply of goods, which leads to an increasing amount of idle capital reserve. Too lax management of the production chain may also lead to a decline in inventory turnover. Warehouse inventory management system is too lax, resulting in excess inventory storage. It is also possible that due to insufficient sales efforts of the company and lack of competence of the sales staff, the inventory is too late to be sold, resulting in severe inventory hoarding.

2.2.2 Weak realisation of receivables

From the relevant data in Figure 2, it is concluded that Yili's accounts receivable turnover ratio declined more during the six-year period. Enterprises generally implement more lenient credit policies in the pursuit of operating income. And too much neglect of accounts receivable recovery rate and implementation of more lenient credit system and credit policy, although it will expand the enterprise's sales volume, but it will also increase the enterprise's bad debt risk. The decline of Yili's accounts receivable turnover rate is likely to be due to the implementation of too loose sales policy in order to expand the sales scale, and the loose credit policy has expanded the enterprise's credit sales business, resulting in the decline of accounts receivable turnover rate year by year, and that is why it has caused the weak ability to realise the accounts receivable.

2.2.3 Poor asset allocation

As shown in Figure 3, the total asset turnover ratio of Yili Co. is decreasing from 2020 to 2021. The reason for this is that, on the one hand, it is likely to be due to the impact of the new crown epidemic, which led to product stagnation; on the other hand, it is likely to be due to the expected sales volume is more optimistic, which led to the accumulation of too much inventory. The accelerated build-up of inventory and reduced sales revenue both caused a decline in the total asset turnover ratio, which caused a decline in the total asset utilisation rate of the enterprise, Yili shares if the long-term existence of irrational asset allocation, will increase the enterprise excessive idle funds, ultimately leading to a significant decline in the operating profit of the Yili shares, lagging behind the peer competitors.

3. Recommendations for countermeasures

3.1. Enhanced inventory management

For Yili stock inventory turnover rate instability, first of all, you can match the principle of dairy production and market demand, reduce the investment in raw materials to start, formulate a production plan in line with the enterprise management, inventory reserves should be based on the market sales. Secondly, adjust the amount of stock in and out of the enterprise warehouse and storage system, strengthen the warehouse staff on the responsibility of inventory management, strict control of receiving and sending and corporate waste behaviour. Finally, do a good job of sales promotion, expanding the market size of the sale of dairy commodities inventory, recruitment of sales experienced sales staff, improve the quality of service, with a view to increasing the enterprise's sales scale and sales profits.

3.2. Adjustment of credit policy

The decline of accounts receivable turnover will have an extremely unfavourable impact on the production and operation of Yili, which will increase the risk of bad debts of the enterprise. Yili can start from adjusting its credit policy, formulate appropriate accounts receivable collection policy and credit sales regulations according to the development situation of the enterprise, and draw up accounts receivable credit policy that is more suitable for the operation of the enterprise. Adjust the credit system for customers according to the difference of their credit level, and control the amount of credit sales to the customers with weak credit appropriately. As Yili's accounts receivable turnover rate decreases year by year, a prudent credit policy can not only effectively reduce the risk of bad debts, but also increase the operating income of the enterprise, which is more favourable to the enterprise's long-term operation and development, and the expansion of the enterprise's scale.

3.3. Adjustment of asset allocation

Inventory turnover, accounts receivable turnover and current asset turnover, each of which affects the total asset turnover rate to a different degree, suggests that Yili: firstly, optimise the allocation of resources, and draw up asset allocation ratios and production plans that are more in line with the company's business development. Secondly, as a leading dairy company, it should recruit high-tech R&D talents and invest in research and development of its own speciality products to prevent homogenisation of all products. Thirdly, the implementation of a more cautious credit policy, according to the enterprise's own situation to adjust the enterprise's credit sales, to increase the enterprise's operating income. Finally, rationally adjust the ratio of funds to assets, maximise the efficient use of assets and funds, improve the efficiency of the total assets of the enterprise so as to create more wealth for the enterprise.

4. Summary

This paper takes Yili Stock as an example to analyse its operating ability, from which it is found that Yili Stock may have problems such as inappropriate inventory management, weak liquidity of accounts receivable and unreasonable asset allocation. These problems affect the sustainable operation of the enterprise to different degrees and hinder the long-term development of the enterprise.

Operating capacity runs through the survival and development of an enterprise, and it is reasonable to make use of the existing resources to manage and control the financial and operational status of the enterprise. In particular, for enterprise managers, the analysis of operating capacity is conducive to helping them rationally allocate resources according to market demand, and to explore the potential of enterprise asset utilisation and business development. For investors, the analysis of operating capacity can help them judge the safety of assets, so as to make reasonable and effective investment decisions. For creditors, the degree of bond security is based on the operating capacity analysis to judge, and then make appropriate credit decisions. In short, whether an enterprise has the potential for long-term development is determined by the enterprise's operating capacity.

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