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Study on the Causes and Countermeasures of SN Company's Financial Crisis

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Abstract: SN Company, a leading retailer in the industry, is in financial crisis, what caused it to be in crisis? How should the company get out of the crisis? This paper analyzes the causes of SN's financial crisis and proposes measures for SN to cope with the crisis, and also provides insights for similar retail companies to prevent financial crisis.

Keywords: SN Company; Financial Crisis; Causes; Countermeasures.

1. Introduction:

Founded in 1990, SN started as a home appliance business and successfully went public in 2004, becoming the first home appliance chain stock after continuous development. In the first year of new retailing (2017), SN actively laid out new retailing and became a benchmark company for business model transformation in the retail industry. In May 2022, the Securities and Futures Commission (SFC) issued a risk warning for SN. As a leading company with a promising development trend, why did it go into decline? In this paper, we analyze SN's financial crisis situation and discuss the causes and countermeasures of SN's financial crisis.

2. SN Company History:

2.1. The First Stage (1990-1998): Deeply Cultivating the Air Conditioning Market

In December 1990, SN's first air-conditioning store was established in Nanjing, and in 1993, SN's turnover exceeded 300 million yuan, making it the largest air-conditioning distributor in China. In 1996, the first air conditioner chain store in China, SN Yangzhou, was established, and the number of air conditioner chain stores in SN exceeded 30.

2.2. The Second Phase (1999-2009): The Entry of Integrated Appliances

In 1999, SN set up its flagship store in Nanjing, which marked SN's formal shift to the retailing stage of integrated appliances. 2004, SN was listed on the Shenzhen Stock Exchange, and after the listing, SN actively expanded and in 2009, the number of stores in 2004, SN was listed on the Shenzhen Stock Exchange.

2.3. The Third Phase (2010-2016): Full Category Dual Channel Marketing

During this period, SN expanded its business scope again, expanding from comprehensive electrical appliance sales to sales of all categories of goods, and broadening the single sales channel of offline sales to multi-channel sales with the integration of online and offline. 2010, SN actively adopted a diversified expansion model, with online stores and offline stores running simultaneously, which helped the company grow at a high speed. In 2014, SN's main business turned from profit to loss.

2.4. Phase 4 (2017-Present): Full-Scene Smart Retail

Under the wave of new retail, SN interpreted its view of new retail, i.e., smart retail, proposed the development strategy of creating a full-scene smart retail, which is consumer-centric, with demand guiding production and scenes promoting sales. At this stage, SN continued to uphold its expansion strategy, opening Carrefour supermarkets and Wanda department stores and entering the real estate sector, but the company's financial situation did not improve and remained in a loss-making state.

3. SN Company Financial Situation Analysis

3.1. Gradual Deterioration of Profitability

Table 1. SN's Profitability Indicators 2009-2021

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net operating margin (%)	4.53	5.13	5.44	2.55	0.10	0.76	0.56	0.33	2.15	5.16	3.46	-2.12	-31.81
Net profit margin on total assets (%)	11.47	10.06	10.06	3.94	0.47	1.00	0.89	0.44	2.75	7.09	4.27	-2.39	-23.08
Return on Net Assets (%)	31.60	28.44	24.48	10.61	1.31	3.01	2.87	1.41	5.76	16.83	11.77	-5.08	-79.42

Source: SN's financial statements for 2009-2021

Profitability, as a key measure of a company's operating performance and value, is of special interest to the company's shareholders, creditors and other stakeholders. In this paper, three indicators, net operating margin, net profit margin on total assets and return on net assets, are selected to analyze the profitability of the company.

As can be seen from Table 1 and Figure 1, SN's net operating margin, net total assets margin, and return on net assets remained stable from 2009 to 2011, but all three indicators showed an abnormal phenomenon of significant decline in 2012, and the condition of the indicators did not improve during 2013-2016 until 2017, when the company's indicators rebounded slightly, but in 2019-2021, the indicators show a significant deterioration trend again, and the profitability of the company weakens year by year.

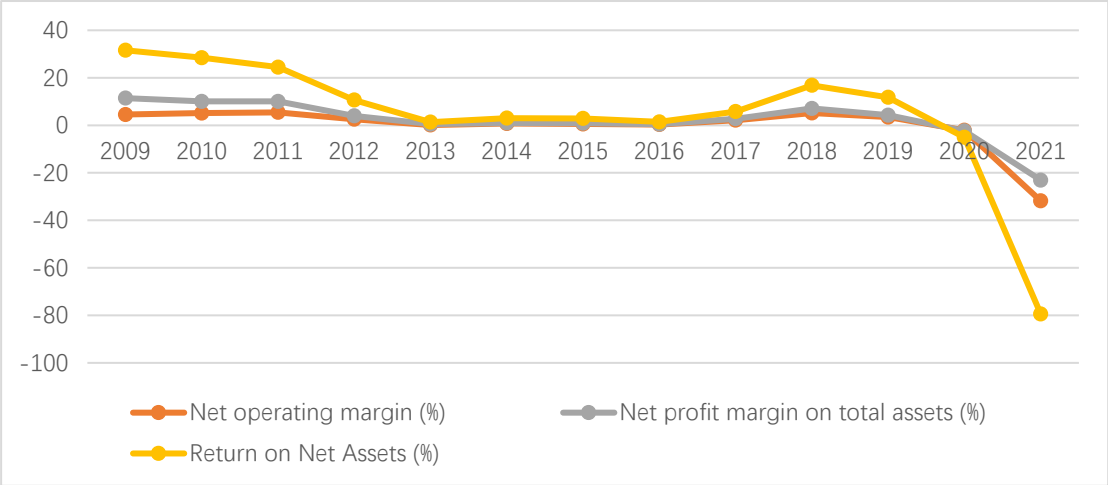


Figure 1. Trend of SN's profitability indicators

Source: SN's financial statements for 2009-2021

3.2. Apparently Insufficient Debt Servicing Capacity

Long-term solvency measures a company's ability to assume its debts. The stronger the long-term solvency, the safer and more stable the company's finances. Short-term solvency measures a company's ability to repay its daily maturing debts, and its strength or weakness also has a significant impact on the company's daily operation. In this paper, five indicators are selected to measure the company's solvency: gearing ratio, interest earned multiple, current ratio, quick ratio and cash flow ratio.

As shown in Table 2, on the one hand, SN's gearing ratio has been rising in the past five years, climbing to 81.8% in 2021, while the company's interest earned multiple has been on a declining trend in the past five years, becoming negative in 2020 and 2021, which indicates the company's weak long-term solvency. On the other hand, SN's current ratio and quick ratio both show a downward trend, with current ratio and quick ratio only 0.68 and 0.57 in 2021, and the cash flow ratio also has negative values in the past five years. On the whole, SN's solvency needs to be improved, especially the company's short-term solvency deteriorates seriously, which warns SN to make efforts to improve its short-term solvency.

Table 2. Key Solvency Indicators for SN 2009-2021

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current Ratio	1.46	1.41	1.22	1.30	1.23	1.19	1.21	1.29	1.25	1.26	1.00	0.86	0.68
Quick Ratio	1.15	1.02	0.84	0.88	0.81	0.81	0.91	1.06	0.96	1.02	0.78	0.67	0.57
Gearing ratio (%)	58.4	57.1	61.5	61.8	65.1	64.1	63.8	49.0	46.8	55.8	63.2	63.8	81.8
Cash Flow Ratio (%)	27	16	19	13	5	-3	4	6	-10	-15	-15	-1	-6
Interest multiplier earned	-	-	-	-	-	13	8	2	14	11	5	-2	-11

Data source: SN's financial statements 2009-2021

3.3. Cash Flow Capacity is not Optimistic

Cash flow is the basis of a company's normal operation. If the company's cash flow is short, it may affect the company's business activities, make the company's business activities discontinuous and hinder the company's development. If a serious cash flow shortage causes the company's capital chain to break, it will directly lead the company to bankruptcy. In this paper, we analyze a company's net cash flow from investments, net cash flow from operations and net cash flow from financing to explore the cash flow situation.

As shown in Table 3, the cash inflows from investing activities exceed the cash outflows only in 2017, 2020 and 2021 during the period 2019-2021, and the investing activities do not yield good results. Moreover, the net cash flow from operations and financing of the company is not yet able to cover the investment losses of the company in the four years 2010, 2013, 2014 and 2019, and the company's capital

funding is under pressure. In addition, since 2017 to date, the company's operating activities have been losing money for years, and the enterprise's investing activities are mainly maintained by raising funds, but in 2020, the companies also experienced a lack of fundraising and a severe cash flow shortage of the enterprise.

Table 3. SN's Cash Flow 2009-2021 Unit: (billion yuan)

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net cash flow from investments	-19	-57	-60	-61	-100	-20	-3	-396	134	-30	-209	46	53
Net cash flow from operations	56	39	66	53	22	-14	17	38	-66	-139	-179	-16	-64
Net financing cash flows	28	1	7	82	29	6	29	368	-9	225	262	-92	-61

Data source: SN's financial statements 2009-2021

4. Analysis of the Causes of SN's Financial Crisis

4.1. Offline Single-store Revenue Shrinkage

As shown in Table 4, the number of the company's offline stores remained at around 1,600 from 2012-2016, with a surge in 2017, adding more than 2,000 stores in one year, and more than 5,000 stores expansion in 2018, which is mainly due to the new retail tide, SN continues to expand the radiation range of its offline stores by expanding them, together with online marketing, to help the company complete its new retail transformation. However, the high cost of offline stores made SN "overwhelmed", and a large-scale store closure occurred in 2019, which is still ongoing. As seen in Figure 2, the company's profitability is weak due to its large-scale store rollout operations with little revenue and a significant decline in revenue per store.

Table 4. Changes in the number of SN's offline stores

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of offline stores (home)	1664	1585	1650	1577	1510	3799	8815	3600	2619	2103

Data source: SN Annual Report 2012-2021

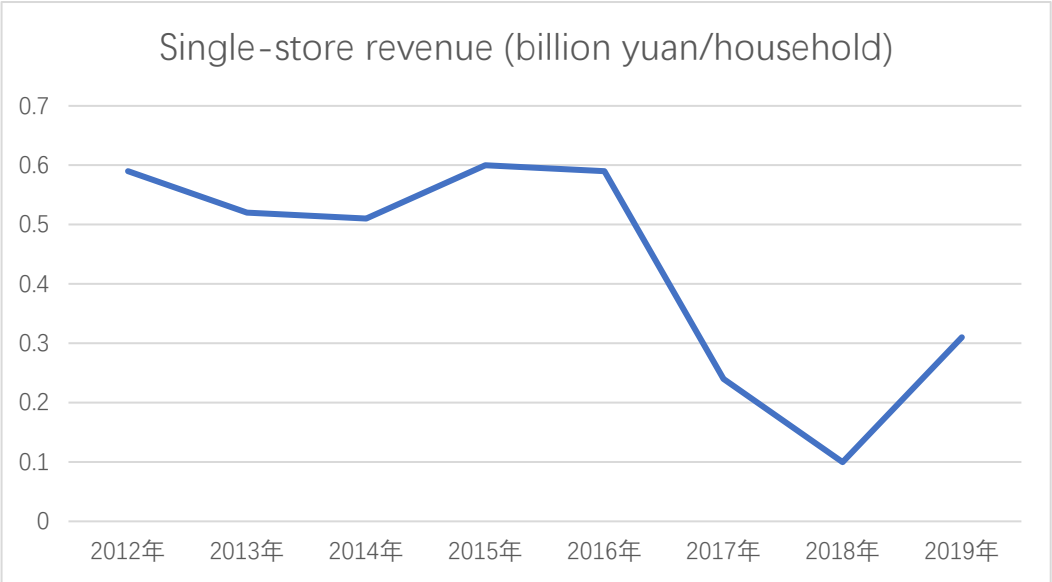


Figure 2. Change in SN's offline sales revenue

Source: Based on SN's 2012-2021 annual report data

4.2. Online Revenue Growth Slowed Down

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Table 5. Changes in SN's online sales revenue

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Online sales revenue (billion yuan)	152	219	226	403	619	975	1498	1584	-	-
Online revenue growth rate	-	44%	3%	78%	54%	58%	54%	6%	-	-

Data source: SN Annual Report 2012-2021

SN is an early adopter of online sales, having established its online platform in 2009. From Table 5, the company's online revenue has been increasing, but in terms of the growth rate of online revenue, the highest growth rate of 78% was achieved in 2015, and the growth rate from 2016-2018 also remained between 50%-60%, but the company's online revenue growth rate declined significantly in 2019, with only 6% growth. Since 2020, the company no longer discloses its online revenue separately, but based on the total online + offline sales revenue, the company's total sales revenue has been negative growth and the profitability is not optimistic.

4.3. Diversification is too Aggressive

In recent years, SN has always maintained a high rate of expansion, making investments in E-House China, Carrefour and Hammer Technology, but increasing investments in recent years when the company's profitability has not been strong has made the company's operations more difficult, and it can be argued that the timing of the company's carrying out diversified investments is not appropriate, as can be seen in Table 6.

From $23.3 billion in 2013 to $221.9 billion in 2018, the company's investment efforts have increased over the six-year period, and the company is facing greater capital needs. It was not until 2019 that the company's investment efforts slowed down. However, since 2017, the Company's net cash flow from operations has been negative, and although the Company's investment efforts have slowed down between 2019 and 2021, the Company's cash flow still cannot meet its investment needs.

Table 6. SN's free cash flow and investment spending, 2009-2021 Unit: (billion yuan)

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net cash flow from operations	56	39	66	53	22	-14	17	38	-66	-139	-179	-16	-64
Cash paid for investments	7	10	9	2	233	502	651	1631	2047	2219	972	333	53

Data source: SN's financial statements 2009-2021

As shown in Table 7, SN's diversified expansion has not brought corresponding income, and several key projects it invested in, such as LAOX, Daily Express, Hengning Commercial Development Company and Carrefour, have all suffered losses of different degrees. Among them, Hengning Business Development Company has the most serious loss, with a loss of nearly 20 billion yuan, and the increasing loss gradually pushes the company to a financial crisis situation.

Table 7. Income from SN's investment projects

Investment Projects	Investment Time	Investment Price	Profit and Loss
LAOX	2010	766 million	-708 million
Daily Express	2017	4.25 billion	-4.89 billion
Hengning Business Development Corporation	2018	9.8 billion	-19,863 million
Carrefour	2019	4.8 billion	-1.099 billion

Data source: SN Company Annual Report

4.4. Unreasonable Financing Structure

As shown in Table 8, SN's debt structure is not reasonable and its current debt ratio is very high, with an average of nearly 90% for these 13 years, the company has weak short-term debt capacity and is under greater liquidity pressure. The company relies mainly on fundraising to maintain its investment needs in the case of poor operation, and the vigorous investment has not brought significant returns. Coupled with the concentrated bond payment event in 2021, the capital pressure has increased significantly and financial problems have been highlighted.

Table 8. SN's liabilities

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010	2021
Total liabilities (billion)	209	251	368	470	544	527	562	672	736	1113	1497	1352	1397
Current Liability Ratio (%)	99.1	97.9	97.0	87.7	81.4	80.0	81.4	91.4	87.3	84.2	81.0	92.1	79.0

Data source: SN's financial statements 2009-2021

4.5. Rising Costs

As can be seen from Table 9, the company's total operating revenue was still higher than total operating costs during the period 2009-2013, but during the eight years from 2014-2021, only one year of total operating revenue was slightly higher than total operating costs in 2018, and the other years all showed losses in which total operating revenue was higher than total operating costs. This indicates that the company did not manage its costs and expenses properly during the new retail transition to e-commerce and to smart retail. As can be seen from Figure 3, the company's period costs have been climbing during 2009-2019, and although the period costs in 2019-2021 show a decreasing trend, the value of period costs is not low when combined with Table 9. And through the previous analysis, it can be seen that the company has not gained significant revenue from either offline or online sales, and the high cost and expense makes the company's profit

margin continuously compressed, and the operational capacity needs to be improved.

Table 9. SN's Cost Components 2019-2021

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total operating revenue	583	755	939	984	1053	1089	1355	1486	1879	2450	2692	2523	1389
Total operating costs	544	701	876	954	1052	1103	1378	1500	1885	2439	2752	2601	1600
Selling expenses	52	68	94	118	127	141	166	175	206	261	335	257	199
Overhead	9	13	21	24	28	34	43	39	36	52	49	47	42
Finance costs	-2	-4	-4	-2	-1	1	1	4	3	12	22	20	36

Data source: SN's financial statements 2009-2021

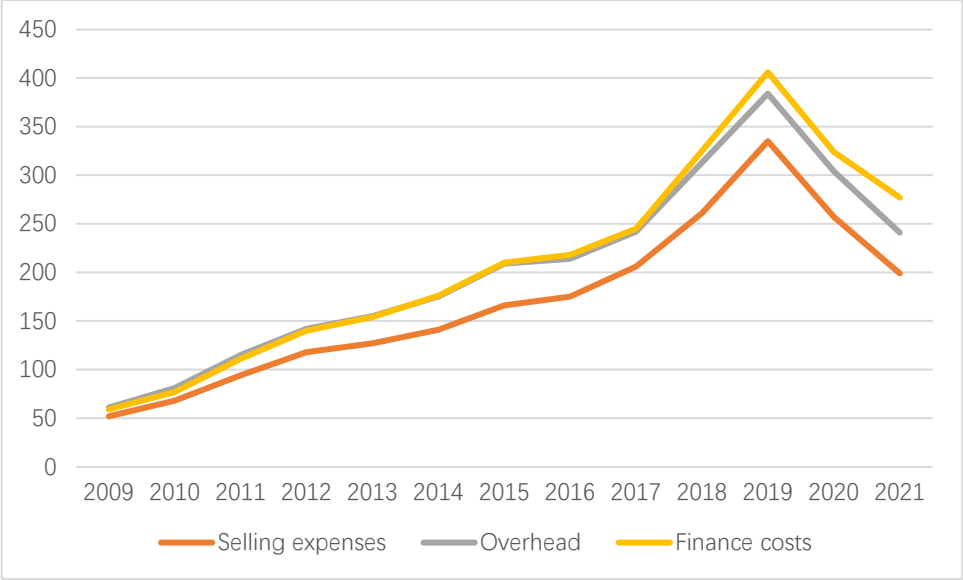


Figure 3. Graph of changes in SN's period expenses

Source: SN's financial statements for 2009-2021

5. SN Company Financial Crisis Prevention Measures

5.1. Synergistic Development of "Online + Offline + Logistics" to Boost New Retail Transformation

With the continuous compression of the profit margin of physical retail and the gradual fading of the e-commerce retail dividend, the new retail business model has become a major trend of innovation for China's retail enterprises. The combination of the three requires advanced technology, supply chain management capability, logistics and transportation efficiency, and consumer demand detection capability. Advanced technology is the key to the qualitative improvement of supply chain management, logistics and transportation efficiency, and consumer demand detection. The new technologies, such as big data, cloud computing and Internet of Things, enable real-time online and interconnection of data, and promote more flexible supply chains, more efficient distribution routes and more accurate demand detection. To this end, SN should introduce advanced technology and scientific research talents, improve the company's ERP management system, enhance the company's informationization level, promote the company's digital transformation, build a supply chain collaboration platform, realize the efficient integration of business flow, logistics and information flow resources, devote to opening up the global sales chain, improve the adaptability and competitiveness of the market, and enhance the company's sustainable development ability.

5.2. Optimize the Layout of Diversified Industries and Make Good Project Feasibility Analysis

At this stage, the company can moderately slow down the pace of diversification, optimize and integrate the current layout of diversified industries, make a comprehensive evaluation of the subsequent income of each project, divest from projects with serious losses, and focus on projects with good expected income. From the perspective of the company's current investment projects, the company has not done a good job of feasibility analysis before investing in the projects. In the next development, the company can set up a special investment decision-making department, establish a decision-making model and scientifically and objectively consider the feasibility of investment projects.

5.3. Optimize Financing Structure and Prevent Credit Crisis

In recent years, the level of SN's assets and liabilities has been increasing, and in 2021 it has exceeded 80%, and there are more current liabilities. Although the interest rate of current liabilities is low, the short repayment period makes the

enterprise face greater repayment pressure, and in the current situation of the company's internal financial constraints, too many current liabilities further aggravate the risk of the enterprise's capital chain. In the future, SN should balance the proportion of current and non-current liabilities in financing, form a good combination of long-term and short-term borrowings, optimize the maturity of debt, and further optimize the financing structure.

In addition, SN's short-term liabilities are mainly obtained through financial financing, which means that the company needs to maintain a good relationship of trust with its suppliers and form a mutually beneficial and win-win relationship between them in order to reach long-term cooperation. The maintenance of this relationship is never to restrain and squeeze the suppliers by virtue of the company's dominant position, but to trust each other, and the company should not simply default on payments to suppliers, and if the company cannot make timely payments, it needs to coordinate with suppliers in a timely manner, for example, by providing discounts to suppliers in exchange for deferred repayment terms. It should be noted that the operation of the financial class is also a current liability, and the company should use this method of financing in moderation. The company can attract more direct investment by continuously creating highlights, such as taking equity financing to attract strong investors and enhance the market's confidence in SN.

5.4. Improve Cost and Expense Management to Enhance the Quality of Profitability

At this stage, SN is facing huge cost pressure and needs to do a good job of cost management urgently. Firstly, the company should use advanced technology such as big data to predict the demand as accurately as possible, produce and sell goods with market demand as the guide, make production and procurement plans combined with consumers' personalized demand, and reduce the backlog of products in stock. Secondly, the company should analyze the traffic, rent, consumption ability and consumption preference, select the logistics distribution center scientifically, optimize the logistics distribution path, reduce the loss of human, material and financial resources while guaranteeing the timely arrival of goods, and realize the cost reduction and efficiency increase of logistics distribution. In addition, the company should continue to promote online and offline collaborative marketing, efficiently integrate retail resources, realize online and offline unification, optimize the relationship between people - goods - field, enhance the sense of borderless consumer online and offline consumption, create a new and upgraded shopping experience, and enhance customer consumer loyalty.

5.5. Enhance Financial Risk Awareness and Establish Financial Risk Warning System

To do a good job in the company's financial risk management, first of all, we must improve the risk awareness of the company's employees, so as to pay attention to risk, sensitive to risk, financial risk throughout the whole process of production and operation of enterprises, which means that not only the company's senior management and financial personnel to enhance risk awareness, the company should enhance risk awareness between all departments up and down, for example, in the sales process, if the sales staff has risk awareness, may For example, in the sales process, if salespeople have risk awareness, they may be able to sense changes in the market environment more directly and quickly, and give feedback to the company in a timely manner and take appropriate countermeasures. This requires risk awareness training for the company's employees and the development of a risk management culture within the company. For the time being, SN has set up a risk control center under the president's office and has established three lines of defense for risk control, the first line of defense being the management of each business, the second line of defense being risk control, system audit, finance and personnel, and the third line of defense being supervision and audit, but the risk awareness of personnel in other departments is still not high and the company has not established a good financial risk warning system to prevent financial risks in advance. In the face of increasingly complex internal and external environment, the company needs to increase the efforts of risk training, so that each department perceives risks and the risk management department controls risks in parallel, and the company should set up a financial risk early warning system, so as to identify risks in advance and adjust the strategy in time to achieve sustainable development of the company, Given that the company is now undergoing a new retail transformation and the shortage of funds is relatively serious, the neural network model, which has a higher learning ability, higher accuracy and higher sensitivity, can be selected to build a financial risk early warning system. As far as the actual situation of the company is concerned, the company has more than sufficient technical personnel and the information technology level has been in the forefront of the retail industry, so it has the ability to carry out risk early warning using the neural network model.

6. Summary

By analyzing SN's financial situation from 2009 to 2021, this paper finds that the company's profitability is gradually deteriorating, its debt servicing capacity is obviously insufficient, and its cash flow capacity is not optimistic, mainly because the company's offline store revenue is very little, online revenue growth is slowing down, diversification investment is too aggressive, financing structure is unreasonable, and costs are escalating. Based on the analysis of the causes of the financial crisis, this paper proposes the following preventive measures: first, the synergistic development of "online + offline + logistics" to promote the transformation of new retail; second, to optimize the layout of diversified industries and do a good job of project feasibility analysis; third, to optimize the financing structure and prevent credit crisis; fourth, to do a good job of cost management and improve the quality of earnings; fifth, to enhance financial risk awareness and establish a financial risk early warning system.

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