Study on Financial Risk and Prevention of Retail Chain Enterprises – The case of Suning Commerce Group

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With the continuous advancement of Chinese economic system reform, Chinese retail enterprise industry has developed rapidly. At present, Chinese retail enterprises are faced with complex internal and external environment. By taking the famous retail chain enterprise Suning Commerce Group as the case study, this thesis will focus on the typical financing risk, investment risk and capital recovery risk faced by Chinese retail chain enterprises and their causes. This thesis put forward financial risk prevention measures and other technical measures from the perspective of strategy and operation.

Field of Study:	Business and Managerial Economics	Student's Signature ....
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Jingzhao Hu

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1. Introduction

1.1 Research background and significance

With the rapid development of Chinese economy, retail chain enterprises have also developed rapidly. The retail chain industry is becoming more and more popular in China because of its convenience and affordability, and is gradually developing into a major retail mode. Since the 1990s, the retail chain industry has been reformed and open to the outside world. According to the *2019 China Chain Store Top 100 List Releases* issued by China Chain Store Association on June 2, 2020, the sales of the top 100 chain stores in 2019 was nearly 2.6 trillion yuan, with a year-on-year growth of 5.2%, and accounting for 6.3% of the total retail sales of social consumer goods. The total number of the top 100 chain stores was 144,000, up 5.9 percent year on year and 100 provided more than 1.6 million jobs.

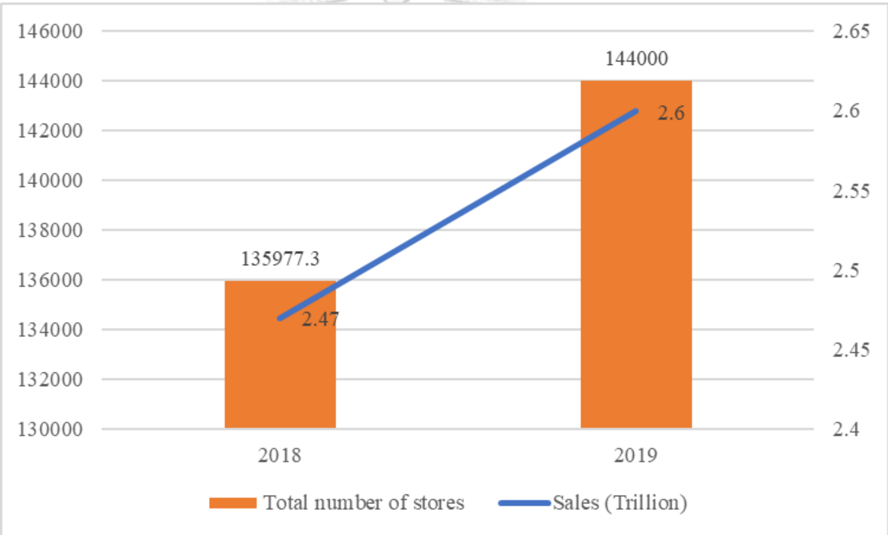


Fig. 1: Total numbers of stores and Sales of China chain store from 2018-2019

Source: China Chain Store Association

Suning Commerce Group topped the list with 378.74 billion yuan in sales. This is the first reason why Suning is chosen in this paper. Secondly, Suning is the only comprehensive retail chain enterprise in China that covers traditional household appliances, consumer electronics, general merchandise, daily necessities, books, virtual products and other commodities. It is also the only company that is growing well both online and offline. However, as an emerging but extremely booming industry, it condenses all kinds of contradictions in the process of market development, but also reflects the achievements of the continuous development of market economy.

Since the 20th century, Chinese retail industry has faced a major turning point -- the rise of e-commerce, which has also caused a certain impact on retail business. Convenient, cheap and more choices make e-commerce quickly become Chinses daily choice of shopping. But in a limited market, the rise of e-commerce represents the decline of retail stores, most visibly reflected in the continuous closure of brick-and-mortar stores. Under the high cost of store rent, the cost of opening an online shop is relatively low, coupled with a wider range of online shopping options, which is conducive to price comparison. According to the *2020 China Economic Annual Report* released by the National Bureau of Statistics of China, the total retail sales of consumer goods in China reached 39,1981 billion yuan in 2020, and the annual online retail sales in China reached 11,7601 billion yuan, with a year-on-year growth of 10.9%. It can be seen that e-commerce accounts for a third of sales, and it is growing fast.

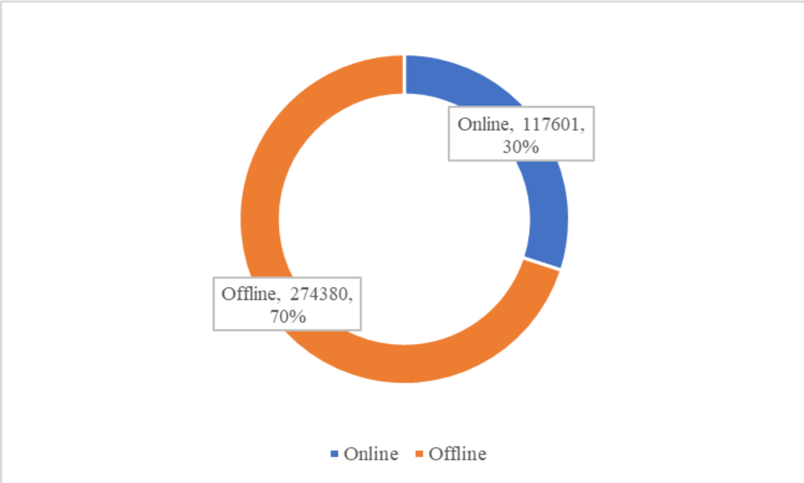


Fig. 2: Online and offline retail sales of China in 2019

Source: 2020 China Economic Annual Report

In order to further regulate the order of the retail market, China has begun to accelerate the pace of the promulgation of industrial norms, with the purpose of stabilizing the trend of China's economic development. In this context, for retail chain industry is both risk and opportunity. If an enterprise wants to gain more benefits, it must have a correct cognition of the external environment. More importantly, it is necessary to prevent such financial risks including typical financing risk, investment risk and capital recovery risk, and take effective measures to improve the efficiency of capital operation for the problems that enterprises will face. This would be beneficial to the long-term development of enterprises and the Chinese retail industry.

1.2 Research ideas and content

The capital flow of an enterprise reflects the financial risk of an enterprise. The fund flow cycle of retail chain enterprises is long and the capital scale is large since they need to put money into the large market and the store is everywhere around the country. Therefore, it is necessary to prevent the typical financing risk, investment risk and capital recovery risk effectively in each main environment of the fund flow.

In this thesis, Suning Commerce Group is chosen for the following reasons.

First, Suning Commerce (formerly Suning Appliance) was established in

December 1990. Suning was originally an air conditioning company, and began to operate integrated electrical appliances in 1999. At present, Suning has grown into a large chain sales enterprise integrating household appliances, consumer electronics, general merchandise and other comprehensive categories. It was on the top list in 2004 and has gradually become one of the top retail enterprises in China's home appliance chain. In 2013, "Suning Appliance" officially announced the change of its name to "Suning Cloud Business", and announced the start of the "store business + e-commerce + retail service provider" model integrating online and offline channels. Suning is the only retail chain enterprise with this model in China.

Second, started as a retailer of home appliances, Suning has realized that it could do more than just do home appliances. Since the transformation of the Internet, Suning has always been expanding the scene and extending the boundaries of the whole sale category. In 2019, with Suning's acquisition of 80% equity of Wanda Department Store and Carrefour China, Suning's full category layout was officially completed. Suning is the only retail chain enterprise with the whole sale category business in China.

Third, Suning is the only retail chain enterprise with its own logistics business in China. Suning acquired Tiantian Express, a logistic-business company. With the completion of the integration of Tiantian, Suning has a 30% cost advantage over the industry in the performance cost of large-piece logistics, and a 40% decrease in the performance cost of small-piece logistics. It is expected that in the next three years, the proportion of socialized logistics revenue will increase by 10 percentage points every year, the compound growth rate of logistics revenue is 35%, and the compound growth rate of profit is 55%.

Fourth, Suning is the only retail chain enterprise with its own financial business in China. Relying on Suning's financial license and fast growth rate of GMV, which is 104.469 billion. It is expected that Suning Financial will maintain more than 100% growth rate of deal size in the future (the overall deal size increased 157% year-on-year in 2016 and 172% year-on-year in the first half of 2017). In 2016, Suning Financial has achieved a net profit of more than 10 million yuan. With the opening of Suning Bank, it is expected that the net profit of financial business will increase significantly in the future.

Taking Suning Commerce Group as an example, the main contents of this paper include the following parts:

First, the introduction will focus on the background of the retail industry and Suning Commerce Group.

Second, an overview of the financial management of retail chain enterprises and a general introduction of the basic theories of financial risk of retail chain enterprises are given.

Third, this paper focuses on the content of the financial risks faced by retail chain enterprises, analyzes and demonstrates the financial risks from the three main links of fund raising, investment and recovery, and further points out the main reasons for the formation of these financial risks.

Fourth, the financial data from 2015-2020 of Suning Commerce Group will be used to analyze and further explain characteristics of the retail chain enterprise financial risk.

Fifth, the retail chain enterprise financial risk prevention measures will mainly focus on the general measures, technical measures and other measures. These three angles will be used to explain our country retail chain enterprise financial risk and develop more effective measures.

Sixth, a conclusion is given.

2. Literature Review

2.1 The concept of retail chain enterprises

Retail is a one-stop service experience of providing consumers or social groups with its fast and convenient serious. It has become a way in which people buying goods and doing all activities. Since the China economic reform and open policy, the rapid development of economy has changed people's consumption pattern. The characteristics of retail are small in transaction but large in frequency. The variety of goods leads to more impromptu purchases and greater emotional impact. Increasingly, going to stores has become the main way of shopping for customers.

So what is a retail chain enterprise? Generally, it is enterprise that has its own brand shaping. When the brand is shaped, they can build branch stores or franchise stores. And only those which succeeded in the retail industry can be called retail chain enterprises. What we often encounter in our daily life are specialized stores of brand clothes and shoes, convenience stores, hotels, and household appliance.

2.2 The meaning of financial risk of retail chain enterprise

Financial risk refers to the risk existing in the financial operation of the enterprise capital, which can have a key impact on the operation and development of the enterprise. Financial risk is a very complex concept. At present, the academic circles generally believe that the concept of financial risk can be divided into two categories: broad risk and narrow risk.

In a broad sense, financial risk refers to the possibility of deviation between the expected and actual results of an enterprise in a certain period or within a certain range due to various unexpected factors in all its business activities of various projects, thus causing the enterprise to suffer economic losses (Li, 2013). In the narrow sense, the financial risk refers to the uncertainty of the repayment of the due debt due to the uncertainty of the capital income in the process of financing. Such uncertainty is the risk that the enterprise takes, which is actually a potential risk of debt default.

Specifically, when the investment rate of return is higher than the borrowing rate, the proportion of borrowed funds and the enterprise rate of return change in direct proportion, which forms the enterprise financial risk.

This paper will focus on the financial risk of retail chain enterprises based on the concept in a broad sense.

2.3 The basic characteristics of financial risk of retail chain enterprise

The essence of corporate financial risk is the uncertainty of capital operation (Chen, 2009). Retail chain enterprises have large capital flow, short idle time and much flow precipitation. Therefore, the basic characteristics of risk taking at retail chain enterprises are mainly manifested as variability, objectivity, incentive, etc.

The variability of financial risk of retail chain enterprises means that its financial activities are affected extensively, which means all activities are affected financially. The internal factors mainly include improper financing scale strategy, improper financing source structure, improper financing method and time selection, improper credit trading strategy and improper financing sequence arrangement. The external factors mainly include market risk, interest rate, change and price risk. The change of influence factor causes the financial risk to have very obvious variability and uncertainty.

For enterprises, it is difficult to effectively and comprehensively monitor these financial risks. Objective financial risks refer to an inevitable rifle from business activities. Retail chain enterprises must take effective preventive measures to deal with them in a timely manner. The double-sided nature of financial risks means that for retail chain enterprises, the objective financial risks will prompt enterprises to take measures to prevent financial risks, strengthen financial management and improve economic benefits (Xu, 2010).

2.4 Financial risks of retail chain enterprises and their causes

2.4.1 Financial risk

Retail chain enterprises mainly sell goods, and their financial risks mainly arise from their daily business activities and market factors. The financial risks of retail chain enterprises are mainly caused by investment, capital recovery and market competition risk (Wang, 2015).

2.4.2 Causes of financial risks

The amount of unsalable inventory goods is large and the control is weak.

In order to reduce the purchase cost or to meet the needs of holiday sales promotion, retail chain enterprises oftenly use cash to purchase and accumulate a large number of inventory. However, due to insufficient research on customer demand before purchase, or over-optimistic estimation of market demand, as well as serious homogenization of goods, weak competitiveness and other reasons, a large proportion of unsalable goods often appear in the accumulated inventory. In order to clear the unsalable inventory, the business operators must bear the corresponding loss of price reduction, which will affect the current profit assessment target. The unsalable inventory not only occupies the capital, but also occupies the storage space of the normal inventory, which directly affects the normal commodity turnover. Procurement quantity estimation is also affected, resulting in unsalable inventory, thus bringing about a series of consequences such as capital occupation, storage cost increase, goods expired damage, natural aging and so on. These seriously affect the asset safety and capital liquidity of retail chain enterprises.

Lack of financial investment decisions seriousness.

At present, managers of most traditional retail chain enterprises tend to make financial decisions independently based on subjective experience and judgment, lacking sufficient scientific judgment, seriousness, and market analysis. It is inevitable that there will be mistakes in financial decisions made. For example, when large foreign retail chain enterprises enter the Chinese market and succeed, some retail chain enterprise, regardless of the actual situation, deviate from the main business and invest a lot of money to continue to develop self-built large business park projects in third and fourth tier cities. When the economic situation slows down, the projects that occupy a large amount of money in the early stage in turn drag down the development of the main business. The negative earnings of enterprises are not only difficult to realize, but also increase the financial risks.

The fund structure of retail chain enterprises is unreasonable.

The irrational capital structure of retail chain enterprises is another internal factor that causes financial risks. The capital structure refers to the proportion arrangement between the equity capital and the debt capital. The unreasonable capital structure refers to the unreasonable proportion arrangement. The main problem of the retail chain enterprise is its proportion of debt funds is too high since they have to invest a lot of money in the market to gain more.

Market competition risk.

The market is a double-edged sword. It brings both opportunities as well as risks. For corporate finance, market competition risks usually come from changes in the external market environment (Hu, 2009). Competition is necessary for the development of enterprises. It represents both pressure and motivation. The changes in market consumption and the changes in consumers' purchasing habits cause enterprises to face more external financial risks because of losing market share gradually. For retail chain enterprises, facing the complex and changeable market, they should not only seize the development opportunities, but also actively deal with the threats and challenges.

2.5 The present situation and existing problems of financial risk of retail chain enterprises in China

At present, Chinese enterprises have generally taken measures to control their financial risks, and some enterprises have also established their financial risk control system (Shi, 2016). In the big aspect, Chinese enterprises have generally had the awareness of risk prevention, but it is not strong, and there is no control in place. The consistency and pertinence of Chinese enterprises in controlling financial risks are not detailed enough, because the financial risk control of Chinese enterprises is still in a developing stage.

2.5.1 The existing problems in financial risk management of retail chain enterprises in China

Weak awareness of financial management.

At present, there is a number of enterprises in our country that is seriously lack of control and management of financial risk awareness. Enterprises do not establish a financial risk management model and employ the corresponding managers. In enterprises, it mainly shows in three aspects. First, the enterprise has the financial risk mode, but there is no one to implement it, or the execution of activities is not sustainable. For instance if the firm suffer a loss and cannot make up for it, that project is put aside. Second, enterprises have no regular assessment or evaluation of financial risks, which seriously reduces the ability of enterprises to adapt to changes in social environment, and avoids risks. Third, the risk consciousness of enterprises deviates from the core. The idea of taking enterprise security as the core is one-sided. It ignores the relationship between risks and benefits, thus missing opportunities and hindering the development of enterprises (Wang & Zhao, 2017).

Insufficient attention is paid to budget management functions.

Industries with large demand for capital such as retail chain enterprises need to have sufficient cognition of capital budget in modern management, which is a necessary means to prevent financial risks. However, the managers of many Chinese enterprises do not pay attention to the budget management, and do not hire professionals to effectively evaluate the future planning. Thus, they unable to carry out effective budget management. This further expands the risk of investment capital and capital recovery of the enterprise.

The internal financial monitoring mechanism is not perfect.

In many typical enterprises, there is personnel structure problem, mainly between the department and the employees. The cause of such problem is from the work responsibilities and ethics procedures that are not clear, and there is no one to be responsible for the problems. Therefore, it is often difficult to establish a corresponding risk management department, and there are no professionals to manage follow-up problems after problems occur (He, 2009). This leads to the phenomenon of kicking the ball. And lead to poor sale performance in the business. Risk management is neglected, and no one is responsible for the accident, which makes Chinese enterprises be labeled as profit-oriented and irresponsible (Ding,2010). Internal control is the core factor of enterprise financial risk management. Without internal control, relevant management information and corresponding management level, enterprises have little ability to face risks and take protective actions to reduce damage (Lv, 2015).

Low efficiency in fund management.

The fund management system is the core of the internal financial system of the enterprise. Its purpose is to ensure the safety and integrity of the capital, which can not only meet the needs of the capital in the process of production and operation of the enterprise, but also to improve the efficiency of the use of funds as much as possible. In order to complete sales target and expand the market share, enterprises adopt a large number of credit sales to stimulate consumption, which leads to a large increase in the accounts receivable of enterprises. At the same time, because enterprises do not fully understand the market and consumer psychology, they blindly sell on credit and create bad debts which lead to the loss of corporate income.

There are also problems of hoarding and overstocking of large quantities of goods which not only occupy a large amount of funds of the enterprise, but also bear the corresponding storage costs and damage costs (Ge, 2003). Thus, enterprises with low efficiency in capital management, poor capital recovery strategy, significant credit sales ratio and low inventory turnover rate are affected.

Cost control is not strict.

With the development of China's economy, people are becoming more and more careful about budgeting. But the costs such as labor, freight, and materials are always increasing to keep up with rising costs. At the same time of rising costs, in order to increase sales, enterprises have fought a price war, and sales facade gimmick activities to attract customers. However, the actual effect is slight, and the cost of these activities can not be strictly controlled to bring obvious financial risks to enterprises.

3. Methodology and Data

This thesis mainly uses documentary analysis, review, and comprehensive analysis methods. Financial tools such as the current ratio, quick ratio, asset-liability ratio, equity multiplier, net profit margin, return on equity, net profit growth rate, accounts receivable turnover, net profit, EBITDA, cash rate of sales are used to evaluate Suning Commerce Group’s financial risk. The criteria for measurement and analysis come from the relevant definitions and concepts in the textbook.

3.1 Documentary analysis method

Documentary analysis method refers to the analysis method that studies the collected documents to find out the nature and status of the object of study and draw one's own views from it. It can help investigators to form a general impression of the subjects of the study, to grasp the historical dynamics of the subjects of the study, and to study subjects that have become impossible to access, such as people who have long since died. In this thesis, documents means the other research articles in the literature review part.

3.2 Review method

Review method is to carefully read and reviewed voucher, account books, statements, plans, budgets and contracts and other documents. Its purpose is to collect audit evidence and provide clues for further collection of evidence. Review the original proof should note :(1) Various elements of the original proof are complete. (2) With or without signs of IUD, alteration of title, date, quantity, unit price, amount, and forging of name, address and seal of the issuing unit. (3) Whether the economic business contained in the original voucher is compliant, legal, reasonable and effective.

3.3 Comprehensive analysis method

Comprehensive analysis method is a research method that uses various statistical comprehensive indicators to reflect and study the general characteristics and quantitative relations of social and economic phenomena. The commonly used comprehensive analysis methods include comprehensive index method, time series analysis method, statistical index method, factor analysis method, correlation analysis and so on. In this thesis, only comprehensive index method is used to analyze the accounted ratios.

3.4 Data

The financial data from 2015-2020 come from the official website of Suning Commerce Group. The data include current ratio, quick ratio, asset-liability ratio, equity multiplier, net profit margin, return on equity, net profit growth rate, accounts receivable turnover, net profit, EBITDA, cash rate of sales.

4. Financial risk prevention case of retail chain enterprises -- Suning Commerce Group

4.1 Introduction of Suning Commerce Group

Suning Commerce Group, founded in 1996, is a group whose main business has expanded and developed electrical appliance retail chain projects. Its business covers electrical appliances, electronic products, communication products and accessories of the chain sales and services, microcomputer accessories, software sales domestic trade and other industries. Suning has become a famous comprehensive retail chain enterprise in China and become public in 2014, becoming another international chain brand in China.

In 2011, Suning put forward the new ten-year development strategy of "transformation of science and technology, intelligent service", which promoted the further deepening of the cloud service model. During this period, Suning gradually explored the business of online and offline multi-channel integration, full-category operation and a variety of open platform services, and created a new Chinese retail model that it believed, called "e-commerce + shop-owner + retail service provider". This is collectively referred to as "cloud business" model (Li, 2014). In 2013, after two years of continuous integration and improvement, Suning officially changed its name to "Suning Commerce Sales Co., Ltd.", which aims to be better and more professional. This action indicates that Suning Appliance has taken a big step towards the transformation strategy of science and technology, while telling the world that the "cloud business" model is officially established.

Up to now, Suning has expanded the market to non-electrical products, involving a wide range of industries. It continues to explore the possibilities of the retail industry, further improve its retail chain content, so as to create higher and better growth for the enterprise.

4.2 Financial Risk Analysis of Suning Commerce Group

4.2.1 Financing risk analysis

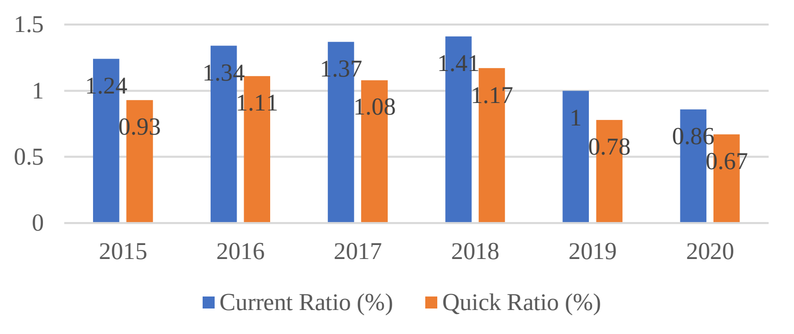
As mentioned above, the financing risk of retail chain enterprises is mainly measured by the solvency of enterprises. The solvency of an enterprise can be divided into two aspects: short-term solvency and long-term solvency (Gu, 1999). The project of retail chain industry has a large demand for capital and a long time for capital operation. Therefore, the solvency of retail chain enterprises is of great significance for risk monitoring and prevention.

As can be seen from Fig. 3, the current ratio and quick ratio of Suning Commerce Group are relatively stable from 2015 to 2018, while the current ratio of assets is gradually declining from 2019 to 2020, and the value of quick ratio is also relatively declining. To measure the solvency, we use the current ratio of an enterprise which is the ratio between its current capital and current liabilities. The higher its value, the greater its short-term solvency.

During the four years from 2015 to 2018, its current ratio is greater than 1, indicating that its current assets are greater than liabilities. This shows that Suning Commerce Group has a certain amount of working capital in the past four years. The reason for the declining trend from 2018 to 2020 is that Suning Commerce Group began to promote the innovation of offline retail business, sinking into the third-tier and fourth-tier markets and increasing the investment in projects in third-tier and fourth-tier cities from 2017, which reduced the current ratio.

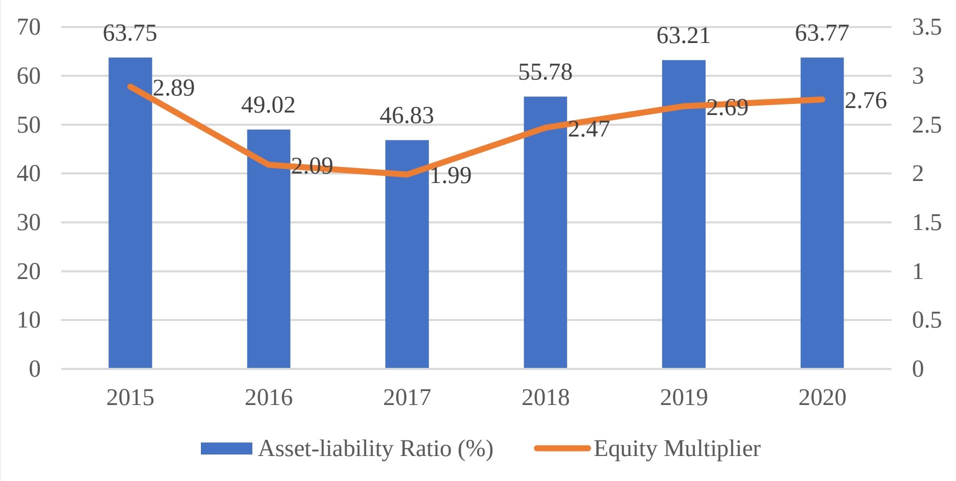
Compared with the current ratio, the quick ratio is more closely related to the short-term solvency of an enterprise. It refers to the short-term liquidity of an enterprise's monetary funds and tradable financial assets. It can be seen from Fig. 3 that from 2015 to 2018, the quick ratio of enterprises had a decline in the middle period, but the ratio picked up in the later period, and the solvency was relatively strong. Generally speaking, quick ratio value is more ideal when it is greater than 1, which means that capital is enough to repay debt. Suning Commerce Group has reached an upward trend from 2015 to 2018, indicating that its short-term debt paying ability is getting better. However, from 2019 to 2020, it will show a downward trend, mostly due to the COVID-19 situation. The decrease of both current ratio and quick ratio indicates that the short-term solvency of enterprises is reduced, which is unfavorable to enterprise operation.

Fig. 3 Short-term Solvency Analysis of Suning Commerce Group from 2015 to 2020



Other indicators for the long-term solvency of enterprises are asset-liability ratio and property right ratio. As can be seen from Fig. 4, from 2015 to 2020, the asset-liability ratio of Suning Commerce Group shows an upward trend, floating at the industry average level of 55.62. This indicates that the asset-liability ratio of the enterprise is medium, which is directly related to the project investment of Suning Commerce Group. In addition, the gradual rise of Suning Commerce Group's equity multiplier indicates that its assets per 1 yuan of owner's equity have risen rapidly. From this perspective, its long-term solvency is good.

Fig. 4 Long-term Solvency Analysis of Suning Commerce Group from 2015 to 2020



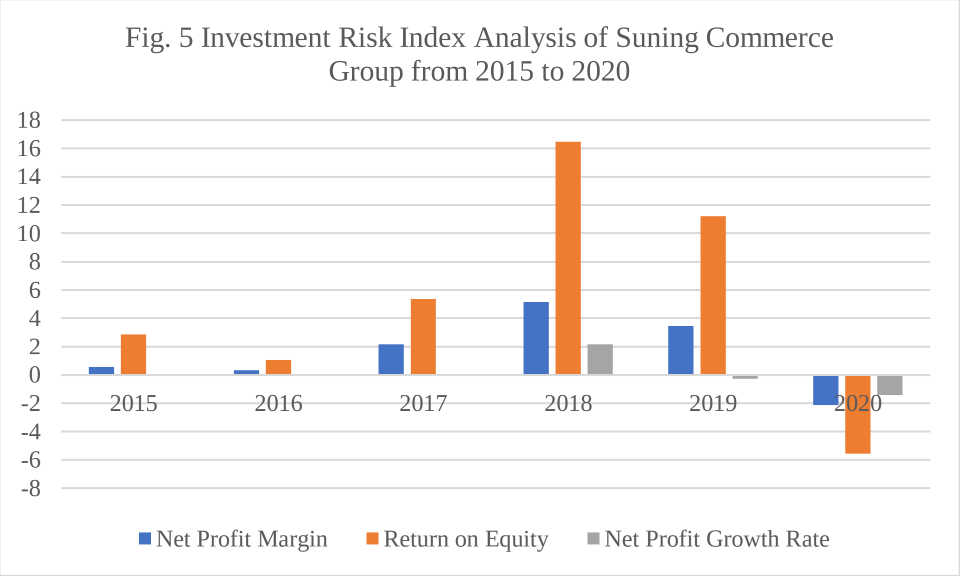
From the above analysis, it can be seen that Suning Commerce Group has certain financing risks at the present stage. The asset-liability ratio is above the average level a little bit. But some financial indexes are better than the industry, and its solvency is higher. The main reason for this phenomenon is that in the process of implementing the development strategy, the enterprise finance has carried out an effective analysis of risks through certain means, and has well integrated all kinds of risk factors to prevent risks. On the other hand, it is caused by the long capital cycle and large project investment of retail chain enterprises themselves.

4.2.2 Investment risk analysis

The investment risk of retail chain enterprise is the uncertain factors brought by the economic activities measured by capital investment to the enterprise capital income. Generally speaking, the size of investment risk is related to various environmental factors faced by enterprises during the investment period. The investment projects and market environment are the direct reasons for the formation of investment risks.

To measure investment risk, we use net profit margin, which is the ratio between net profit and net operating income in a certain period of time. The higher the value, the higher the ability of the enterprise's sales behavior to make profits, and the smaller the investment risk. The return on equity as the profit level of its net assets can also be used. The higher the value, the higher the profit level of the enterprise and the smaller the risk.

As can be seen from Fig. 5, in 2015 to 2018, the net profit margin of Suning Commerce Group remained at a high level and tended to rise, while its return on equity in 2018 also remained at a high level since its higher than 10, which indicates that Suning Commerce Group has certain investment risks, but it is not obvious. However, in 2019-2020, under the influence of COVID-19, offline retail chain enterprises have been greatly impacted, and increase investment risk of enterprise.



4.2.3 Capital recovery risk analysis

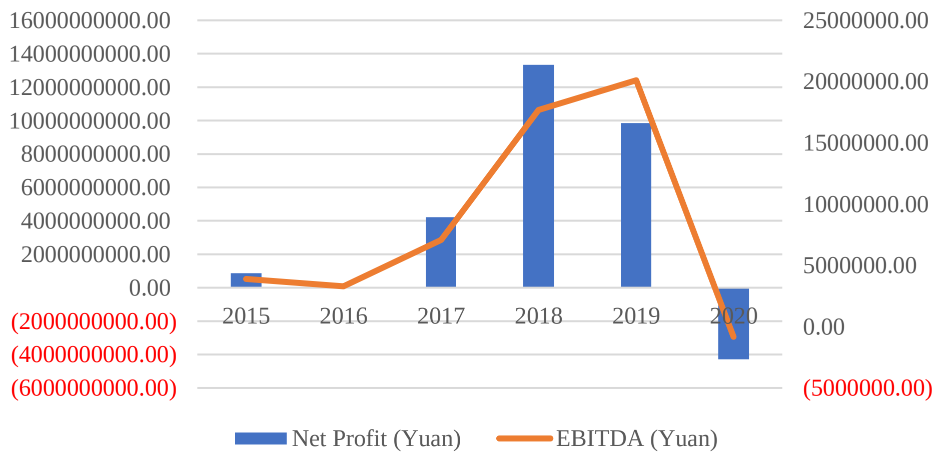
The capital recovery risk of enterprises is mainly reflected in the accounts receivable turnover and cash flow. EBITDA, or earnings before interest, tax, depreciation and amortization, is widely used by private equity firms to calculate a company's operating performance. We can see from Fig. 4 that from 2015-2019, the EBITDA of Suning increases year by year, which means Suning is in a good shape. However, influenced by the COVID-19, the data shows a share decrease in 2020. And as can be seen from Table 1, the receivables turnover of Suning Commerce Group has decreased year by year. Except for the impact of COVID-19 in 2019-2020, the net profit showed an upward trend, while the cash rate of sales did not fluctuate much. This indicates that Suning Commerce Group has made accounting preparation for the prevention of bad debts in the collection items of the enterprise and tried to reduce the impact on the enterprise's fund recovery in a prudent way.

In addition, the sales cash rate of enterprises is gradually declining, which is related to the change of Chinese macro financial situation, indicating that there is a certain risk of capital recovery within enterprises. The key is to grasp the mode of sales, which is cash. Meanwhile, the increase in net profit was due to the cooperation between Suning Commerce Group and Evergrande Group in 2018 to expand Suning market. Moreover, Suning sold its shares in Alibaba several times in 2018, which affected the value of net profit, but the growth of net profit had nothing to do with actual sales.

Table 1 Fund Recovery Risk Index Analysis Table of Suning

Commerce Group from 2015 to 2020				
Year	Accounts Receivable Turnover (Time)	Net Profit (Yuan)	EBITDA (Yuan)	Cash Rate of Sales (%)
2015	218.41	872,500,000	3,886,066	0.01
2016	164.26	-	3,286,947	0.03
2017	107.61	4,212,520,000	7,079,758	-0.04
2018	62.77	13,327,560,000	17,694,586	-0.06
2019	42.70	9,842,960,000	20,109,279	-0.07
2020	33.89	-4,274,700,000	-824,514	-0.01

Fig. 6 Net profit and EBITDA of Suning Commerce Group from 2015-2020



4.3 Current situation and existing problems of financial risk prevention in Suning Commerce Group

Suning Commerce Group currently has three major problems that may cause financial risks. First, the enterprise development strategy is not clear. Second, the operation system under the new model is not perfect. Third, investment payback period is long, and its financing is difficult.

First of all, as mentioned above, Suning has put forward and implemented the new cloud business model of "e-commerce + shop-owner + retail service provider". However, the actual effect of "de-electronization" is not obvious, and the transformation of the traditional home appliance retail chain into electronic commerce cannot be accomplished overnight. With the global economic downturn, the market is depressed, and the offline physical stores have been greatly impacted. Worryingly, the capital of Suning under this strategic target cannot support the implementation of the whole strategy. According to the above data, Suning's assets are huge, but its liabilities are relatively low. If there is a mistake in investment decision-making, there may be a loss of capital in the capital chain, which leads to financial risks.

Secondly, to e-commerce, Suning is facing a major problem in the transformation. In the past, Suning focused on a single category of goods for household appliances, but after expanding e-commerce business, it turned into a comprehensive seller. Suning has not made corresponding changes to its management structure while increasing the number of commodity categories. Whether an enterprise can become bigger and stronger is not a matter of external quality, but whether the internal management of the enterprise can be in place and whether all departments can operate smoothly after a certain change. If the operation system has not been established, it is likely that there is no one to manage or to take responsibility. There will be no linkage and coordination between the upper and lower levels of the enterprise. These are extremely easy to cause the occurrence of financial risk.

Finally, the competition of Suning is more intense than the traditional one because of the influence of the "cloud business" model and the increase of the asset-liability ratio. Because different financing methods correspond to different risks, which leads to enterprise deviation from the financing target and confused capital structure, thus facing financial losses or even financial deterioration of the enterprise. Moreover, due to policy from Chinese government, the interest rate on loans for enterprises is high, so that the threshold and cost of large-scale financing are very high, which reduces the financing demand of enterprises.

5. Preventive measures of financial risk of retail chain enterprises

In view of the three current financial risks of Suning Commerce Group, the following preventive measures are suggested.

5.1 Preventive measures for management risk in strategic of retail chain enterprises

5.1.1 Pay attention to capital flow and attach great importance to the capital operation

The risk management of financial staffs is mainly to improve the management of accounts receivable and make bad debt provision so as to reduce losses. In the retail chain industry, accounts receivable is the main source of business income. If the proportion of bad debt is too large, the financial risk of the enterprise will be greatly increased. Therefore, retail chain enterprises should pay attention to the recovery management of accounts receivable. At the same time, clear rules and regulations and enterprise norms should be set to manage the accounts receivable activities for financial personnel to lay a systematic foundation. On this basis, enterprises can designate special personnel, and having credit evaluation system, such as integrity files and other means in place.

In addition, to avoid the risk of inventory price drop, it is necessary to reserve relevant assets in the early stage and have a clear understanding of the inventory turnover rate and the market, so as to prevent operational risks.

5.1.2 Control cash flow and improve the efficiency of capital use

For retail chain enterprises, there is a huge amount of cash flow every day. To control the risk of cash flow, it is necessary to establish the concept of scientific investment and make reasonable investment portfolio. The main reason why Suning Commerce Group has formed a relatively sufficient capital flow and presents a small investment risk is that during the period of its strategic transformation and development, it optimized its investment portfolio and developed various projects such as e-commerce, store-store and new retail.

The most obvious advantage of optimizing investment portfolio to control investment risk is that it can avoid the loss brought by policy or industry changes to the development of enterprises. Retail chain enterprises should fully explore various potential investment objects related to various retail chain industries in the process of economic structural system reform in China. This can not only expand the scale of enterprises, but also effectively avoid the inherent investment risks faced by retail chain enterprises and achieve scientific development.

5.1.3 Perfect financial system and strengthen financial management

The purpose of financial risk prevention is to manage the potential risk before it occurs so that the company can avoid the loss. The environment changes rapidly in Chinese retail chain market because of the entry of large foreign-funded retail chain enterprises. Therefore, it is very important to establish an efficient financial risk management early warning system inside the enterprise.

At the end of 2009, Suning Commerce Group started a new round of information reform, established a comprehensive information communication system within the Group, and carried out all-round management of the enterprise. In this way, the financial operation of the enterprise has a real-time risk warning system. This is a model for Chinese retail chains. Informatization will become a necessary way for the modernization of Chinese enterprises, and retail chain enterprises need to establish a financial early warning system in the process of informatization in order to effectively prevent financial risks.

5.1.4 Optimize the capital structure of enterprises and conduct prudent financial management

Nowadays, with the increasing competition in the market, the investors of enterprises often choose a more prudent approach to operate the enterprises. Therefore, optimizing their own capital structure, and reducing the external debt have become the main goal of corporate financial management. For the capital structure of enterprises, debt accounts for a largest proportion, so it is necessary to pay attention to the financial leverage effect of enterprises to limit the debt scale of enterprises. For any enterprise, the unreasonable capital structure of the enterprise and the excessive debt scale will lead to the outflow of financial risks and interests.

Suning Commerce Group is involved in a wide range of industries, but the financing risk problem of the enterprise is not obvious, which shows that its capital structure has a certain rationality. And a stable and reasonable capital structure is exactly why profits are rising. While establishing effective risk prevention awareness, comprehensive analysis and consideration of liabilities and owners' equity are used, to maintain a reasonable relationship between internal financial indicators and maximize corporate interests.

5.2 Preventive measures for management risk in operation of retail chain enterprises

5.2.1 Strengthen expense management and reduce costs

The cost of retail chain enterprises is not only large in scale, but also extensive in scope. From the establishment of the retail chain project to the implementation of sale, the burden on the business is obvious. These costs directly affect the enterprise's cash flow, net profit and cash turnover and other indicators. This also affects the enterprise's capital recovery risk. In this regard, the retail chain enterprises should strengthen its management of expenses and reduce the cost.

Retail chain enterprises should reasonably control the cost of each process of the project. Enterprises should establish a sound budget assessment system, and a reasonable cost evaluation of the project based on the experience of the industry. Retail chain enterprises can make full use of various management means in production and operation activities for capital precipitation, and at the same time grasp the expenditure on sales.

At present, an important reason for the "survival of the fittest" of Chinese retail chain enterprises is the comprehensive quality of financial personnel. In the process of enterprise modernization reform, Suning Commerce Group has a high requirement for financial personnel. The management of financial personnel is carried out by dedicated personnel and centralized management. This virtually improves the level of enterprise financial risk management, but also further reduces the cost.

5.2.2 Establish the internal audit supervision mechanism of retail chain enterprises

In addition to establishing the effective financial risk management, the key to modern enterprise management is to establish an effective supporting management mechanism within the enterprise, to ensure that the risk prevention measures can be effectively implemented.

To establish the supporting measures inside the enterprise, it is necessary to establish the supervision mechanism of the internal audit. At present, the financial supervision of Chinese enterprises is mainly external supervision, and risk management is also rely on the external supervision and management. However, this cannot meet the requirements of financial risk control of retail chain enterprises, so enterprises need to establish an internal audit supervision mechanism on the basis of financial management. Large-scale retail chain enterprises can consider the establishment of the corresponding financial audit supervision department by special personnel, and employ professional personnel to effectively supervise the financial audit work, so as to achieve real-time monitoring, early detection and early solution of risks. For retail chain enterprises with limited scale, if the cost is too high, it can be considered to add a functional department of internal audit on the basis of the existing financial management department. Arrange financial personnel to conduct financial audit regularly, issue risk reports on the audit results and put forward preventive suggestions.

Above all, special auditing institutions and internal auditing institutions should be set up according to the different nature and regulations of enterprises. The audit institution is independent of the management and generally should be directly led by the board of directors and other corporate authorities and report the audit results directly to the authorities. Secondly, equip the corresponding auditor according to the scale of the enterprise and production characteristics. Auditors should not only be familiar with accounting, auditing, taxation, statistics, computer information systems and other specialized knowledge, but also have the ability to update knowledge and apply new technologies, and have the integrity and enterprising spirit.

5.3 Other technical measures to prevent financial risks of retail chain enterprises

For retail chain enterprises, to control the investment risk, it is necessary to establish the concept of scientific investment and make a reasonable investment portfolio. The main reason why Suning Commerce Group has formed a relatively sufficient capital flow and has a small investment risk is that during the period of its strategic transformation and development, it optimized its investment portfolio developed various projects such as e-commerce, store-store and new retail.

The most obvious advantage of optimizing investment portfolio to control investment risk is that it can avoid the loss brought by policy or industry changes. Retail chain enterprises should fully explore various potential investment objects related to various retail chain industries in the process of economic structural reform in China. This does not only expand the scale of enterprises, but also effectively avoid the inherent investment risks faced by retail chain enterprises, and achieve scientific development.

In particular, since Suning proposed to buy back the company's shares in the second half of 2018, the company has a large amount of idle funds due to the sale of Alibaba's equity. Therefore, the company makes good use of these funds to buy back the company's shares. Although the paid-up capital is reduced, the reasonable capital transfer improves the earnings per share of its own stock. It raised the valuation, so that the brand awareness of the enterprise has been improved. It also raises the level of trust among other investors, providing a huge opportunity for companies to raise capital. So investing in own company is also a risk prevention measure.

6. Conclusion

Retail chain enterprises are an important part of Chinese sustainable economic development and one of the driving forces of national economic development. In the complex economic environment, the maximum benefit of retail chain enterprises is its core goal, and high benefits will inevitably bring high risks, and the correct and effective prevention of corporate financial risks is the most important. At present, the financial risks of Chinese retail chain enterprises can be divided into financing risk, investment risk and capital recovery risk.

In this thesis, we use Suning Commerce Group as the case study. Suning is a comprehensive retail chain enterprise with the strongest comprehensive strength in China, and its internal fund operation also presents certain risks in its financing, investment, capital recovery and other links. Suning Commerce Group currently has three major problems that may cause financial risks. First, the enterprise development strategy is not clear. Second, the operation system under the new model is not perfect. Third, investment payback period is long, and its financing is difficult. In response to these risks, Suning Commerce Group should take management in both strategic and operation and take other technical measures to ensure that financial risks are minimized. And this also has good implications for other retail chain enterprises in China.

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