

Financial Analysis of the Problems for Transformation of Traditional Company

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Abstract: According to the upgrading and transformation of people's consumption demand, their consumption mode is also changing. With the help of traditional mode of offline sales, it is far from being a powerful armor for enterprise development. Entrepreneurs with keen sense of smell and sharp vision have begun to lay out online sales channels. Developing online business can not only save promotion costs, but also greatly improve efficiency. It's not too late for online business to start at any time, and the integration of online, offline and online has become the business norm of enterprises. However, these transformation processes are not so smooth, there exists many kinds of problems. Therefore, this paper chooses a case of BPA, and analyze the problems existing in the transformation process of the target company. Finally, the solutions, including incentive system, promotion method and logistics system, are proposed from the perspective of financial analysis.

1. Introduction

For a long time, offline traditional enterprises occupy the dominant position of the market in the form of stores[1-3]. Small stores, grocery stores, department stores and shopping malls are all part of them. Some of them may be small enterprises, but they are real and spread all over our lives. With the progress and development of technology, especially after entering the Internet era, offline traditional enterprises are facing unprecedented problems, facing the inevitable “tide of closing stores”. It can be seen from the trend in recent years that the offline complex shows a period of explosive growth, but at the same time, it also has a certain degree of diversion. However, in this way, the offline market will inevitably suffer from the attack of the same market and online business, so the overall performance of offline will fall in a straight line[4,5]. In addition, because small and medium-sized enterprises are relatively small, human, material and resources are also very limited, and most of them still adopt the offline operation mode, it must produce a large cost of pavement and labor. If the enterprise is composed of multiple small entities, then the various costs will inevitably double. Therefore, if the income effect of these enterprises can not cover these fixed costs, then the loss of enterprises is the inevitable result[6-8].

At present, due to the low entry threshold of some industries and more and more start-ups joining, there are more and more peers, and the homogenization of products is becoming more and more serious. In addition, the Internet environment has led to the gradual transparency of product prices among various industries, which has given consumers more choices. In order to attract more consumers, many businesses usually have more choices. In order to survive, small and medium-sized enterprises will have to fight a price war. However, due to their strong brand influence, large enterprises can play more “tricks” while they are able to fight for a long time. For small and medium-sized enterprises, a single price war is enough to consume a lot of energy and even make losses. Moreover, the biggest disadvantage of traditional offline stores is that it is difficult to break through the limitation that a store can radiate about 3-4 kilometers, and the audience is very limited. Compared with the online operation mode, it is fundamentally a disadvantage to obtain customers. Therefore, the business model of a single traditional physical store is bound to become the past, and the trend of online transformation is inevitable.

During the Covid-19, offline industries were forced to accept a “survival stress test” under the epidemic[9-11]. How to seize the future opportunities, such as digital survival, online development

and counter trend flight, may be the structural change opportunities of offline industry, which is also the trend of the current environment. The sudden epidemic has triggered a global economic downturn and damaged consumption. The blocking of passenger flow and logistics, the loss of store passenger flow and the sharp decrease of revenue have become a common phenomenon in various offline industries. The industry pattern and consumption trend have suddenly become unknown. Therefore, this paper will focus on this problem based on the financial analysis.

2. Case Description

In order to better describe the problem, here we selected an example from BPA competition about Financial Analyst. The Stock-Up Paper Co. was started as a small, private corporation in 2000 in the Scranton, Ohio area. Scott, the Founder and CEO, began by selling paper products to local businesses with just three employees. Over the past twenty years, the company was so successful at selling paper products that they began selling all office products; by 2020, the Stock-Up Paper Co. was a leading distributor of all office products in the Ohio region.

Stock-Up first differentiated itself from big box competitors by the high level of customer service they provide. Each customer was assigned to their own personal salesperson who took the time to get to know their customers and their needs. Stock-Up now employs six sales people; all salespersons are paid a base salary plus a commission of 5% of their sales. The salespeople are authorized to make small concessions to larger customers in an effort to provide top-level customer service. Dan, the Sales Manager, believes that these concessions are immaterial and do not significantly impact the profitability of the company; although they do significantly impact the satisfaction of the customers.

In 2010 Stock-Up introduced a website with a sales portal where customers can place their orders directly through the website without going through a salesperson. The website has been very popular, and Stock-Up saw an increase in sales; however most of the long-time customers still prefer to place their orders through their personal salesperson. Despite the fact that sales have been steadily increasing, profit margins keep shrinking and in 2020, Stock-Up posted its first loss.

Table 1 Selected Financial Data in Fiscal Year End 2020

Item	Amount
Sales	16,359,417
Cost of Goods Sold	13,669,686
Warehouse Expenses (including personnel)	869,855
Freight-Out	504,191
Sales Personnel Expenses	540,993
Other Operating Expenses	769,855
Interest Expense	46,191

Stock-Up's accountant, Lynn, further analyzed sales from the past year and discovered that almost half of all sales were from Internet orders, while the other half were placed through the salespeople. However, when Scott looked at the number of orders, almost 85% of all orders were placed through salespeople. Internet customers tended to place fewer, larger orders while those ordering through their personal salesperson tended to place smaller orders more frequently. Each order is manually packed once it is placed by the warehouse personnel. Rob, the Warehouse Manager, is concerned because the warehouse personnel are currently working at maximum capacity; and if sales continue to increase, they will need to hire more workers. The warehouse is already working overtime a couple of weekends a month just to keep up with the current demand. Stock-Up uses a commercial shipping company to ship all orders, and charges customers 2% of the total order for shipping.

Lynn also noticed that the majority of Internet customers paid for their orders at the time of sale, while the customers who placed their orders with their salesperson took advantage of Stock-Up's offer to be billed for their orders. The average level of Accounts Receivable for Internet orders was \$9,000 last year, but it was \$30,000 for those that placed their orders through the salespeople. In

addition, Lynn noticed that the Internet customers tended to pay their bills within 30 days, while the other customers often took up to 90 days to pay. Stock-Up maintains a line of credit with their local bank that they use to help make ends meet if cash flows run short. Lately, Stock-Up has had to rely on this line of credit more. Considering that Stock-Up's line of credit charges 10% on the outstanding balance, Lynn thought this might be significant.

Therefore, the Stock-Up Paper Co.'s CEO, Scott, has hired a firm to further analyze the company's business activities and make recommendations about how to reverse their recent profit slide. Your presentation should include, but is not limited to, Stock-Up's current financial position and your specific recommendations to improve profitability.

3. Case Analysis

According to the research and analysis of this case, the key points will focus the following four aspects. As shown in Table 1, firstly, it has a detailed analysis of the problem. As for the proportion of each item in income statement, it can get the problems faced by the company at present, and consider how to solve the key problems. The second is to find the way to further improve the profit level through research. Then the problems are summarized and the corresponding references are given in Fig.1.

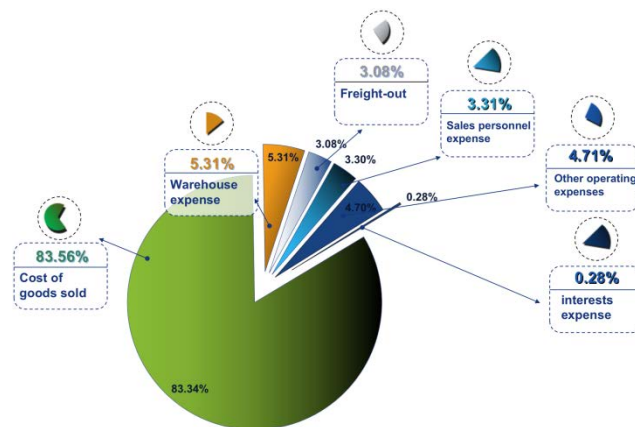


Fig.1 Company Financial Data in Fiscal Year End 2020

As mentioned in the description, Stock-up paper cooperation is a leading distributor of office products in Ohio region. In 2010, they introduced website sale business, leading to steady increase in sales. While, there is a problem in profitability and they met the first loss in 2020. As shown in the income statement, its gross profit margin was 16.44%; however, after covering other costs, net profit margin turned to -0.25%. Besides, the gross profit level of the company is only about 17%. Although it is already the largest office supplies distributor in Ohio, it is still lower than other listed companies and lower than the standard of the whole industry.

4. Solution

For most traditional office supplies enterprises, the fierce market competition not only brings low profits, but also disrupts the orderly development of the industry. The change of consumer demand makes many traditional enterprises begin to focus on enterprise innovation. With the continuous development and change of the office supplies industry, a duel between tradition and transformation has been formed in the office supplies market. The Internet of enterprises mainly shows that marketing mode is transferred from offline to online, or both online and offline. However, the main impact of the Internet is still in the field of marketing, but it does not involve production. Nowadays, some manufacturers in the market are in line with the Internet in this way: Based on the third-party platform, the generation process is guided by the user data from the network, so as to realize on-demand production without overstocking inventory. Therefore, the change of marketing mode brought by the Internet is not only to move marketing channels to the

Internet, but also to guide production through the analysis of data, so that enterprises will not blindly produce and increase costs due to overproduction. Compared to the excellent companies in the world, this company need to use the power of e-commercial platform such as Alibaba to find better deal for upstream suppliers, get bulk order discount deal and use the largest regional distributor advantage to negotiate a good deal. In addition, major issues also include Warehouse workload. The warehouse personnel are currently working at maximum capacity, and they will need to hire more workers based on the increasing rate of sales. The warehouse is already working overtime a couple of weekends a month just to keep up with the current demand. Therefore, they need to solve the manual order pack process, use AI. It can reduce the workload for employee, through the adopting of information system and artificial intelligence technology to improve the efficiency of warehousing. Besides, the company can combine small orders to large orders to reduce the total number of orders to reduce the workload by Giving combined order discount. Another essential problem is the Account Receivable, and the average level of this expense for Internet and salespeople are \$9,000 and \$30,000 respectively. Also, the payback time of offline sales is three times as long as the internet. Therefore, we consider adopting the late fee and early payment discount to motivate the customer to pay the bills directly.

The next step is about some parts with further Improvement. The sales team should be the first target to enhance. At present, salespeople salary obtains a fixed incentive system with 5% of sales amount, which cause a problem that sales staff will depend more on the previous customers and cause a lot of cost of sales. So, an improvement about dynamic reward system should be considered, a healthy salary system should have a ladder feature. Also, the KPI testing can be selected for motivation, the rolling comparison will select the better salesperson and give extra reward. At present, the extensive and deep application of information technology is irresistible, the web and sales data organization should be easily improved. It is mentioned in the case that the emergence of websites has greatly driven the growth of sales, and the experience of many successful e-commerce Internet companies tells us that the in-depth transformation of websites can greatly promote sales and improve the profit level. According to the current fact that the most sales increases from online orders, they need to improve the users satisfaction during the shopping process. For example, online order coupon, buy printer give discount on print cartridge.

In addition, stock-up can use sales analysis tool like software Salesforce to understand the data and dig out the potential client, issues in the product, adapt machine learning tech. According to the description, Stock-Up uses a commercial shipping company to ship all orders, and charges customers 2% of the total order for shipping. All the order are sent from warehouse, which causes a direct burden for efficiency. As Ohio's largest office supplies distribution company, stock has the ability to negotiate with upstream companies, for some popular product we may negotiate with the supplier to establish a drop shipping service to reduce the freight cost and warehouse expense. In general, we divide this case into two part, including Key Issue and Further Improvement. We discuss the low gross margin, warehouse workload and account receivables in Key Issue part, the information technology should be selected for improvement. Besides, for Further Improvement, Sales team, Web and sales data organization and Dropshipping service should be considered to make better. Stock up is a good company and accumulated resources for many years, it has the chance to change according to the condition.

5. Conclusion

Since entering the 21st century, the trend of the Internet has become more and more obvious. The advantages of the network can effectively reduce the cost of enterprises, so that many companies can grow rapidly and get more profits. With the development of information technology, only when enterprises go online and digital, can they overcome the current epidemic situation and greatly improve the efficiency of communication, communication and cooperation in the whole society. After the epidemic is over, it will find that there are many business forms, because the epidemic has gone online, forming a new business model. At the same time, many users will develop new consumption habits. This paper analyzes the company's financial and business

information. The main problem is the contradiction between online and offline mode. We put forward the feasible plan, including reforming the staff salary, formulating the sales policy and introducing the advanced technology, which can essentially improve the profitability level of the company.

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