

Study of Suning Global's Diversification Strategy Based on the Harvard Analytical Framework

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Abstract

In the face of the cooling down of the real estate industry in China, Suning Global, whose main business is real estate, has actively implemented a diversification strategy in recent years and transformed into the medical beauty industry to find a new growth pole for the company. The article uses the Harvard Analytical Framework to analyse Suning Global's financial statements from 2013 to 2020 in accordance with the four elements of the framework: strategy, accounting, finance and prospect, and creatively combines cash flow analysis to evaluate the company's financial performance before and after the implementation of its diversification strategy, with a view to providing implications for the strategic transformation of listed real estate enterprises.

Keywords

Harvard Analytical Framework; Real Estate; Diversification Strategy.

1. Introduction

With the development of the economy and the increasing diversification of the company's business, diversification strategy is one of the options for many companies to strengthen their market position in the face of fierce competition. In recent years, Chinese real estate companies have been facing strict macro-control pressures, and the real estate industry has been on a downward trend and the return on investment is not as good as it used to be. More and more real estate companies are implementing diversification strategies to transform their businesses in order to achieve sustainable development. This paper takes Suning Global as the research object, and conducts a comprehensive evaluation of the financial performance of Suning Global under its diversification strategy from the four aspects of Harvard Analytical Framework: strategy, accounting, finance and prospect, analyses its development space and potential risks, and proposes corresponding feasible optimization suggestions, in order to help Suning Global clarify its strategic positioning, reduce operational risks and achieve sustainable and healthy development. This paper also serves as a reference for other companies in the real estate industry when implementing diversification strategies and conducting financial performance analysis and evaluation.

2. Literature Review

Scholars have come to different conclusions regarding the impact of diversification strategies on the overall development of real estate enterprises. X.X. Jing[1] used the data of Chinese A-share listed real estate enterprises in the past eight years to measure the change behaviour of enterprises' diversification strategy in two dimensions, direction and degree, and found that the diversification strategy of real estate enterprises had a positive impact on the overall development of enterprises; S.J. Lun[2], by analyzing the diversification strategy of Evergrande Real Estate, found that Evergrande's diversification strategy had led to an increase in debt servicing risk and operational risk, and a decrease in financial results. And factors such as cash holdings and capital utilization rate also need to be considered in the financial analysis of the

enterprise. Evergrande's diversification strategy fails to play a role in promoting the development of the enterprise; X.J. Liu[3] believes that diversification strategy is a double-edged sword for real estate enterprises, and that enterprises should clarify their enterprise development ideas and identify risks when implementing diversification strategy; Z.H. Guo[4] summarized the path of strategic transformation of enterprises, arguing that strategic analysis and financial analysis are inseparable and influence each other. Eddo Coiacetto[5], through studying the development model of real estate enterprises, believes that the implementation of diversification strategy by real estate enterprises can accelerate the flow of corporate capital, which helps to improve the efficiency of wealth creation and achieve comprehensive development; J.L. Huang[6], through analysing the implementation of diversification strategy by a large number of listed real estate enterprises in China during the real estate boom, found that diversification strategy had a positive impact on the leverage ratio of the company.

In summary, academic research on the evaluation of the effectiveness of real estate companies' diversification strategies has been fruitful, both from the perspective of the company's financial results and from the perspective of strategic decision-making, but few scholars have combined the two perspectives. Therefore, this paper adopts the Harvard Analytical Framework to analyse Suning Global's performance in terms of corporate strategy and financial situation, in order to provide some reference for real estate companies to implement diversification strategies and evaluate financial performance.

3. Research Thinking

The paper uses a combination of quantitative and qualitative methods to collect and analyse Suning Global's financial information, while reviewing non-financial information related to Suning Global's announcements as the subject of the article. To address the shortcomings of traditional financial analysis, the paper uses the structure of the Harvard Analytical Framework and a combination of theoretical and practical approaches to systematically evaluate and analyse the subject of the study, and then uses the conclusions of the analysis to suggest improvements and potential risks for Suning Global, and finally provides recommendations for the implementation of diversification strategies for real estate companies.

The innovation of this paper is that it not only analyses the three aspects of solvency, operating capacity and profitability of the enterprise based on the financial analysis of the Harvard Analytical Framework, but also focuses on the characteristics of capital flow in the real estate industry and introduces cash flow data for targeted analysis to identify the problems and opportunity points of Suning Global.

4. Analysis of Suning Global based on Harvard Analytical Framework

4.1. Strategy Analysis

4.1.1. Suning Global Basic Factsheet

Suning Global Ltd. (000718), formerly known as Jilin Paper Ltd., changed its main business from paper making to real estate development after completing a major debt restructuring in 2005. In 2016, Suning Global strongly entered the medical beauty industry and vigorously cultivated and expanded the medical beauty industry with a strategic mindset of promoting corporate transformation and upgrading to create a new industrial growth pole for the company. Under the diversification strategy, Suning Global has significant competitive advantages in the industry competition.

4.1.2. Analysis of the Current State of the Industry

Firstly, the real estate sector has been cooling down under China's purchase restriction policy, which has been in the spotlight since 2010 as the country has introduced purchase restriction

orders in response to the overdevelopment of the real estate market. The government introduced the purchase restriction to curb investment and speculative demand for housing and to control the excessive rise in property prices in second and third tier cities. With the continuous implementation of the purchase restriction order, the real estate industry turnover continues to shrink, the real estate industry has largely suffered a blow, and it will still take time for the industry to rebound. Secondly, the potential of the medical beauty industry under the face value economy is huge. With the improvement of the living standard of the residents, people's consumption tendency has changed from the original survival-oriented consumption to development-oriented consumption and enjoyment-oriented consumption. As shown in Figure 1, China's medical beauty market has great potential. Although the growth rate of China's medical beauty market has slowed down since 2021, and the initial layout of medical beauty in first and second-tier cities has been completed, the service standards in the medical beauty industry in many third and fourth-tier cities are not uniform, and the sinking market is still an opportunity point for the future development of the medical beauty industry.

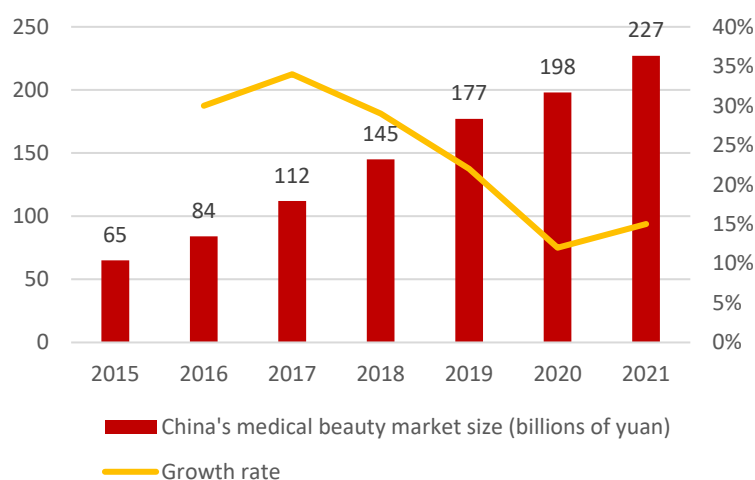


Figure 1. China medical beauty market size and growth rate

4.1.3. Corporate Strategy Analysis

From 1993 to 2004, Suning Global was formerly known as Jilin Paper Ltd., whose main business was paper manufacturing. In 1997, the company was listed on the Shenzhen Stock Exchange with the stock code 000718. From 2005 to 2013, the company restructured its assets and changed its name to Suning Global Ltd. The company focused on property development and successfully developed a series of high-quality real estate projects under the development strategy of "cultivating Nanjing, basing on Jiangsu and laying out nationwide". From 2014 to the present, Suning Global has implemented a diversification strategy to diversify risks, earn profits and keep pace with the development of the times, on the basis of making real estate bigger and stronger. In 2014, the company entered the cultural media industry, and in 2015, it entered the financial industry. In 2016, Suning Global launched the "Suya Medical Beauty" brand and acquired five medical beauty hospitals, clearly considering medical beauty as the focus of the company's diversification and transformation strategy, and breaking down the big health and beauty strategy into three stages to advance one by one.

In the first phase, from 2016 to 2017, Suning Global made a multi-point layout. Suning Global cooperated with upstream medical beauty equipment manufacturers to improve the company's ability to integrate resources in the medical beauty industry chain. In the second phase, from 2018 to 2020, Suning Global made internal adjustments. Suning Global introduced medical beauty talents and built a data integration information platform to improve the company's operational management capabilities and market competitiveness in the medical beauty

industry. In the third phase, from 2021 to the present, Suning Global has made output efforts. Suning Global will integrate the company's resources, improve specialisation and open branches to enhance the scale effect, and will still look for upstream bidders to achieve full chain development.

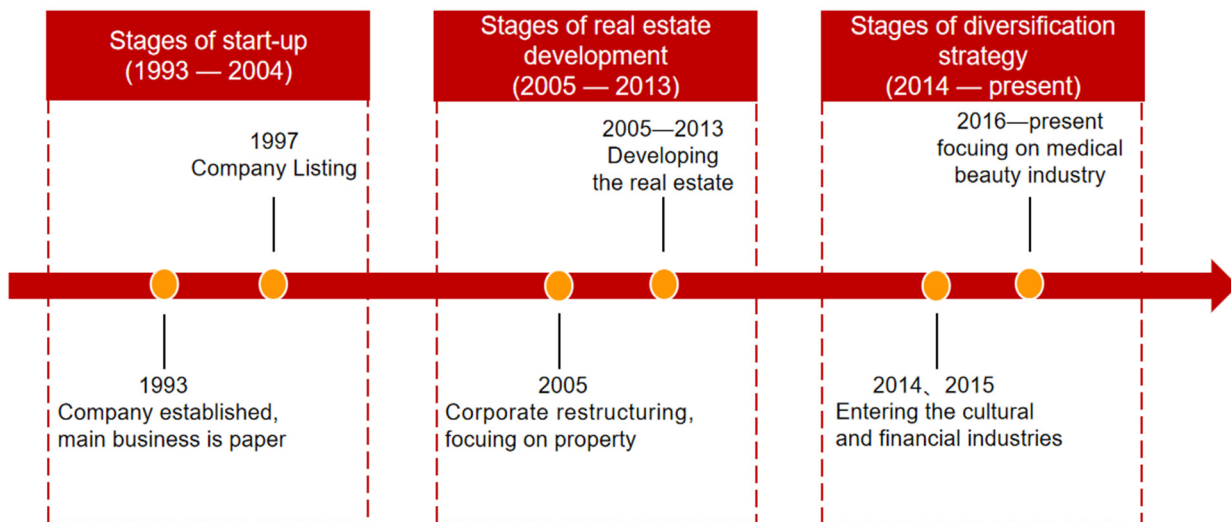


Figure 2. Suning Global strategic phase history

4.1.4. SWOT Analysis

For the layout of the medical beauty industry, Suning Global's advantages are experience and capital. As a leading real estate company in Jiangsu Province, Suning Global has rich experience in team building, cost controlling and promotion marketing. Moreover, the company benefits from the solid fundamentals of Nanjing real estate market, which can provide continuous cash flow support for the implementation of the company's diversification strategy, and the company has spent RMB 1 billion to repurchase shares, mainly for equity incentives for key employees in the medical beauty field. The disadvantage of the company is its small scale and weak risk resistance. At the early stage of promoting the development of the medical beauty industry, the company paid high compliance costs and experienced negative investment returns due to the chaos in the medical beauty industry. The company's opportunities are reflected in the domestic and international medical beauty boom and the policy to curb real estate, which provides directional guidance and policy impetus for the company's transformation. The company's threats are the fierce competition in the real estate and medical beauty industries and whether the company has ability to rationalize the allocation of capital under its diversification strategy.

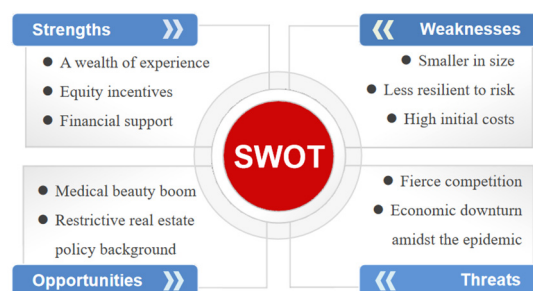


Figure 3. Suning Global SWOT analysis

4.2. Accounting Analysis

Compared with other industries, the liquidity of the real estate industry is mainly affected by inventories and accounts receivable. Suning Global's accounting policies and accounting estimates comply with the special requirements of the real estate industry, which are mainly reflected in the valuation method of inventories, the provisioning method of bad debt provision for receivables, the measurement mode of investment properties and the timing of revenue recognition. Therefore, the article analyses Suning Global's accounting from two aspects: the valuation method of inventories and the provisioning method of bad debts for receivables.

4.2.1. Inventory Valuation Policy Analysis

Table 1. Suning Global inventory data 2013-2020

Indicators	2013	2014	2015	2016	2017	2018	2019	2020
Net inventory (Unit: billion RMB)	170.19	179.87	163.76	131.70	121.35	110.53	109.39	98.15
Total assets	206.97	213.76	247.84	211.93	197.04	188.88	179.78	159.72
Inventory/Total assets	82.23%	84.15%	66.07%	62.14%	61.59%	58.52%	60.85%	61.45%

Suning Global's inventories are the most significant component of its assets, including both real estate and non-real estate inventories. The Company's inventories are initially measured at cost and at the lower of cost or net realizable value at the balance sheet date. Working capital materials are amortised using the one-time reversal method and inventory is inventoried using the perpetual inventory system. As can be seen from Table 1, Suning Global's inventories are shown on a net basis, and the proportion of inventories to total assets of the company is basically maintained at around 60%-80%. This indicates that Suning Global has accelerated the turnover of its inventory in order to implement its diversification strategy of "real estate + health", with a view to speeding up the return of capital and providing sufficient funds for the development of the enterprise in the medical beauty industry.

4.2.2. Bad Debt Provisioning Policy for Accounts Receivable Analysis

The provision for bad debts of Suning Global's accounts receivable is divided into two categories. Firstly, for receivables with a single balance of RMB5 million or more at the end of the period, the Company conducts separate impairment tests on them. If there is objective evidence of impairment, an impairment loss is recognized based on the difference between the present value of future cash flows and their carrying amount, and a provision for bad debts is made, or if no impairment is found, a provision for bad debts is made on the basis of the ageing analysis. Secondly, for non-related party receivables with a single amount of less than RMB5 million at the end of the period, but with an ageing of more than five years, which are subject to higher credit risk, the Company makes provision at 90% of the carrying value of the receivables. In summary, the accounting policies and accounting estimates of Suning Global from 2013 to 2020 are not significantly different and do not significantly distort the financial data, and the accounting methods used are the same as those used by other real estate companies in the same industry, so they are comparable horizontally and vertically and provide a basis for financial analysis.

4.3. Financial Analysis

The financial statements of Suning Global from 2013 to 2020 are selected for analysis in this paper. The financial impact of the implementation of the diversification strategy on Suning Global is analyzed through a vertical comparison, and Suning Global's level of development in the industry is analyzed through a horizontal comparison with its competitors in the same

industry, Poly Group and Tianjian Group. The data in this paper is obtained from the CSMAR database and the financial statements of each company.

4.3.1. Solvency Analysis

Table 2. Suning Global solvency indicators 2013-2020

Indicators	2013	2014	2015	2016	2017	2018	2019	2020
Current ratio	1.56	1.43	1.77	1.70	1.74	1.91	1.95	1.99
Cash ratio	0.10	0.06	0.27	0.22	0.24	0.33	0.22	0.11
Asset-liability ratio	0.79	0.77	0.61	0.61	0.54	0.53	0.53	0.46

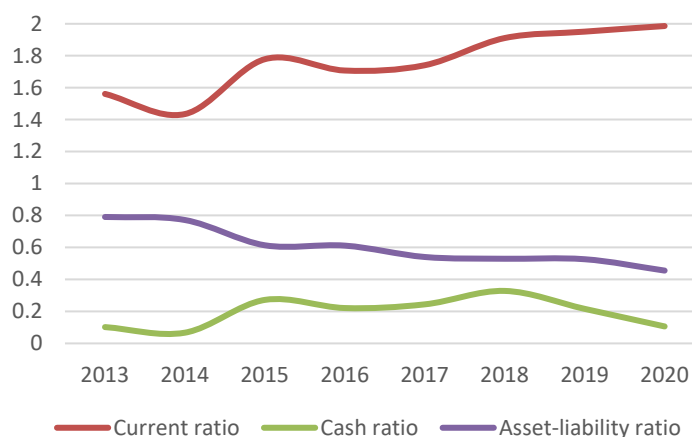


Figure 4. Suning Global solvency indicators 2013-2020

Solvency is the degree of cash security a company must repay its debts. As can be seen in Table 2 and Figure 4, Suning Global's current ratio is on the rise between 2013 and 2020, indicating that the company's short-term solvency has improved and there will be no major problems with debt servicing in the short term. The cash ratio is unstable, with a local peak formed in 2018 as the company drew funds to support the medical beauty industry, with a RMB30 million increase in monetary funds over the same period as well as a RMB50 million decrease in current liabilities over the same period. The asset-liability ratio has declined over the eight-year period, indicating that the company has improved its long-term solvency and sound operating levels through the implementation of its diversification strategy, and it has made better use of the financial leverage of its assets and liabilities to create more revenue for the enterprise.

Table 3. Suning Global, Poly and Tianjian Group average solvency indicators 2013-2020

Indicators	Suning Global	Baoli Group	Tianjian Group
Current ratio	1.76	1.72	1.56
Cash ratio	0.21	0.20	0.32
Asset-liability ratio	0.61	0.77	0.70

As can be seen from Table 3, Suning Global's current ratio is higher than that of Poly and Tianjian Group, indicating that Suning Global is more liquid in the industry and has better short-term and long-term debt servicing capabilities. Suning Global's asset-liability ratio is lower than Poly and Tianjian Group, indicating that Suning Global has less operational risk among the three and has greater creditor protection and fuller financial leverage. Suning Global's cash ratio is

slightly lower than the other two companies, but there has been a turnaround from Suning Global's cash ratio since 2016 due to its diversification strategy.

4.3.2. Operating Capacity Analysis

Table 4. Suning Global operating indicators 2013-2020

Indicators	2013	2014	2015	2016	2017	2018	2019	2020
Inventory turnover	0.28	0.19	0.29	0.41	0.27	0.11	0.14	0.17
Receivables turnover	38.21	32.19	16.86	16.80	10.14	13.87	31.82	46.76
Current assets turnover	0.34	0.26	0.32	0.43	0.33	0.19	0.26	0.35
Total assets turnover	0.32	0.26	0.29	0.38	0.29	0.17	0.22	0.29

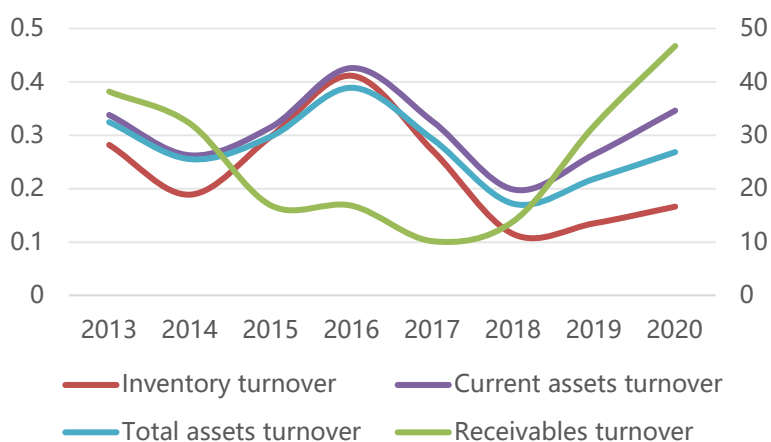


Figure 5. Suning Global operating indicators 2013-2020

Operating capacity indicates how efficiently a company utilises its assets. In the financial statements, Suning Global's inventory has averaged over 67.12% in the past eight years, which is typical of real estate companies. As shown in Table 4 and Figure 5, Suning Global's inventory turnover ratio, current assets turnover ratio and total assets turnover ratio show a "W" pattern over the eight-year period, peaking in 2016 and hitting a low point in 2018. Receivables turnover ratio was in a "U" shape, reaching its lowest point in early 2018. The low value of inventory and assets turnover ratio in 2018 was due to the repeated strict macroeconomic regulation of the real estate industry in China, which led to a cooling down of the real estate industry and the emergence of inventory hoarding. The low receivables turnover ratio in 2018 was due to a 42% decrease in revenue from the industry cooled down. On a consolidated basis, Suning Global's operating capacity fluctuated considerably during the initial implementation of its diversification strategy, and has gradually improved in recent years as the implementation of the strategy has deepened.

Table 5. Suning Global, Poly and Tianjian Group average operating indicators 2013-2020

Indicators	Suning Global	Baoli Group	Tianjian Group
Inventory turnover	0.23	0.28	0.52
Current assets turnover	0.31	0.28	0.45
Total assets turnover	0.28	0.26	0.36

As shown from Table 5, Suning Global's inventory turnover ratio is the lowest among the three real estate enterprises, mainly because Suning Global's corporate size and total capital is

smaller than Poly and Tianjian Group. Suning Global's current assets turnover ratio and total assets turnover ratio performance are in the middle of the three companies and are within a reasonable range. The current assets turnover ratios of the three real estate enterprises were not significantly different, indicating that the liquidity within the enterprises was more fully utilised.

4.3.3. Profitability Analysis

Table 6. Suning Global profitability indicators 2013-2020

Indicators	2013	2014	2015	2016	2017	2018	2019	2020
Return on assets	0.04	0.06	0.06	0.07	0.08	0.07	0.09	0.10
Returns on total assets	0.03	0.04	0.04	0.05	0.05	0.05	0.07	0.06
Operating profit margin	0.13	0.22	0.18	0.20	0.27	0.42	0.45	0.35

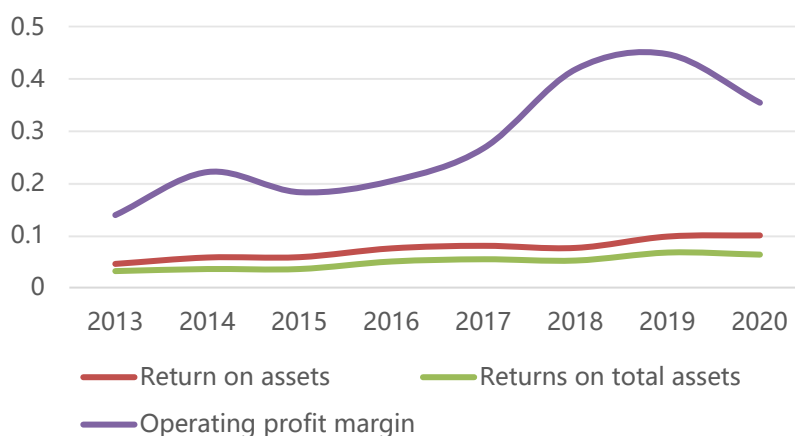


Figure 6. Suning Global profitability indicators 2013-2020

As can be seen from Table 6, Suning Global's return on assets, total assets near margin and operating margin all show an overall increase from 2013 to 2020, and after 2016, when the company implemented its diversification into medical aesthetics, it achieved a significant increase in profitability and enhanced competitiveness in the market. This reflects both Suning Global's good level of earnings and management capabilities, as well as its adaptability and execution of its diversification and transformation strategy.

Table 7. Suning Global, Poly and Tianjian Group average profitability indicators 2013-2020

Indicators	Suning Global	Baoli Group	Tianjian Group
Return on assets	0.07	0.05	0.04
Returns on total assets	0.04	0.03	0.02
Operating profit margin	0.27	0.18	0.10

As can be seen from Table 7, Suning Global outperformed its competitors in the same industry in terms of profitability from 2013 to 2020. Against the backdrop of a cooling real estate market due to China's tightening macro-control policies on real estate, Suning Global hedged some of its risks and improved its competitiveness by implementing a diversification strategy and entering the large health and medical beauty market.

4.3.4. Cash Flow Analysis

Table 8. Suning Global net cash flows 2013-2020 (in RMB billion)

Net cash flow	2013	2014	2015	2016	2017	2018	2019	2020
From operating activities	23.74	8.02	31.52	35.71	19.87	8.04	-5.93	0.98
From investing activities	-7.11	-6.59	-6.16	-11.12	-6.35	2.37	6.19	-3.17
From financing activities	-11.00	-4.64	13.74	-48.43	-13.82	-7.09	-11.91	-7.66

As can be seen from Table 8, although the sales revenue of Suning Global maintained an increase from 2013 to 2020, there were more accounts receivable formed from sales and the outflow of taxes and fees related to operating activities increased in the form of cash, so the overall net cash flow from operating activities showed a decreasing trend. 2016 saw the highest net cash flow from investing activities because of the cash paid by the company for the establishment of a RMB5 billion medical beauty industry fund and the acquisition of a number of medical beauty hospitals. In this year, the net cash flow from investing activities reached the highest value because of the increase. In 2015, the company raised approximately RMB3.74 billion from a private share issue, resulting in the highest net cash flow from financing activities in the year. 2016 saw the lowest net cash flow from financing activities as the company returned a large amount of bank loans and reduced its monetary funds by RMB2.692 billion compared to the same period last year.

4.4. Prospect Analysis

4.4.1. Future Development

Suning Global will continue to stimulate the long-term development momentum of the medical beauty business in the future. From the perspective of experience, Suning Global has established a mature business management model in terms of operation and management, financial operation and business regulation, which can be replicated in the medical beauty system with rapid expansion. From the perspective of incentives, Suning Global has developed an attractive remuneration system and share payment plan based on the characteristics of the medical aesthetics industry, which will help attract more medical aesthetics talents to Suning Global. From the perspective of capital, Suning Global has no major investment plans in real estate in the future, and the company will have more than RMB10 billions of investment capital available, which can meet the full coverage of medical aesthetic investment capital needs.

4.4.2. Risk Forecast

First, the regional real estate market risk. The real estate industry is greatly affected by macroeconomic policies. Suning Global's main real estate business is mainly in the Jiangsu, Shanghai and Anhui markets, so if there are significant changes in regional real estate regulation and control policies and market conditions, it may have a significant impact on the sales and returns of the company's real estate projects.

Second, the actual medical beauty industry has not landed as fast as expected. The development of the company's actual medical beauty business may be affected by factors such as the market environment, personnel preparation and management capabilities, etc. If the company is hindered in a certain aspect, the normal operation of the entire medical beauty industry chain will be affected.

Third, the risk of losing key talent. The core of medical beauty business lies in doctors, and the industry is highly competitive for head doctors. If Suning Global's training mechanism and incentive system for doctors cannot keep up with the times, there will be a risk of losing medical doctors and other talents.

5. Conclusion and Recommendation

In the paper, Suning Global is selected as the subject of this study, and its performance in terms of strategy, accounting, finance and prospect before and after the implementation of Suning Global's diversification strategy is comprehensively analyzed and evaluated through the Harvard Analytical Framework, and cash flow analysis and basic financial indicators are effectively combined to make a comprehensive evaluation of Suning Global's financial performance under the implementation of its diversification strategy. From the framework analysis, it is clear that Suning Global has both strengths and weaknesses, opportunities and threats, and the company's financial indicators are unstable over the eight-year period from 2013 to 2020, as evidenced by an increase in debt servicing capacity and profitability and a decrease in operating capacity. Therefore, the company should promptly adjust its planning and management strategies, strengthen its refined management by adopting resource integration and cost control, improve its operational capacity, maintain the smooth operation of its real estate business while stimulating the vitality of its medical beauty business, and achieve the steady advancement of its diversification strategy.

Acknowledgments

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