

Study of the Profitability of Senma Enterprises

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Abstract

Senma is an old national brand with a long history in China's apparel industry, with high visibility and wide recognition among consumers, and a leading position in the domestic apparel industry. From the very beginning of its establishment, Senma has adopted an asset-light operation, outsourcing some low value-added production processes and focusing on the development of high value-added core business. Maximise its advantages and enhance the core competitiveness of the enterprise. Therefore, this thesis takes Zhejiang Senma Co., Ltd. as an example, according to the theories of "Smile Curve", "Value Chain" and "Core Competence", combines the relevant literature of scholars at home and abroad, and makes reference to the financial information of Senma Clothing. Based on the theories of "smile curve", "value chain" and "core competence", combined with the relevant literature of scholars at home and abroad, and with reference to the financial information of Senma Apparel, the study analyses the motivation for the adoption of "asset-light" operation of Senma Apparel and its operation status. On the basis of the above research, we analyse the profitability of Senma Apparel under the asset-light operation mode from three aspects: profitability of asset operation, profitability of capital, and profitability of commodity operation, and find out the problems existing in the operation process of Senma Apparel. Based on this, the corresponding optimisation measures are proposed. We hope that this thesis can theoretically enrich the research on the profitability of the asset-light operation mode in the clothing industry, and realistically provide some countermeasures to the profitability problems of Senma enterprises under the asset-light operation mode.

Keywords

Asset-light Operating Model; Profitability; Senma Clothing.

1. Introduction to the Article

In recent years, with the increasing impact of e-commerce on the real economy, many apparel companies are facing a series of problems such as falling profits, declining sales, inefficient supply chain management, and overcapacity. There is an urgent need for apparel factories to transform their previous profit-making methods based on low prices and scale. Asset-light profit model, refers to the enterprise by focusing on innovation and research and development, management of high value-added parts, and outsourcing of low value-added parts of the product, in order to enhance the core competitiveness of the enterprise, and to obtain a higher return on profits with less cost investment.

From the beginning of its establishment, Senma Garment Company has adopted the asset-light operation mode, and in the process of continuous development, the company has grown to be the leader of the domestic casual wear industry, which proves that the mode has a certain degree of sophistication. This paper will analyse the current situation and problems of the profitability of Senma Clothing under the asset-light operation mode, and based on this, put forward the corresponding optimization measures to provide reference for other enterprises adopting the asset-light operation mode to improve their profitability.

2. Literature Review

2.1. Current Status of Research on Asset-light Operation Mode

Research on the connotation of the asset-light operation model. Foreign scholars McKenzie is the first person to put forward the "asset-light operation" model, he believes that the essence of the asset-light operation model is to outsource the basic aspects of enterprise production, focusing the company's production on those core steps with high economic value, which can reduce the company's capital investment and maintain the company's competitive advantage in the key steps. Anne (2000) further suggests that the asset-light operation model is to outsource the entire production, assembly and packaging of a company's products, and to focus resources on product development, sales and service, and supply chain management.[4] The model was further proposed by Anne (2000). After that, Wei Wei and Zhu Wuxiang (2010) and others put forward the view that "asset-light operation emphasises the importance of knowledge and wisdom", and regarded "utilising intellectual capital" as an important connotation of "asset-light". The use of intellectual capital" is an important connotation of "asset-light". By integrating resources, high returns can be achieved at low cost, indicating that "asset-light" management has a "leverage effect". Han Peng (2018) refers to enterprises that focus on their core business and focus on intangible assets, such as knowledge, as asset-light operation models, based on the capital operation models they adopt that can increase the proportion of existing non-material resources.

Regarding the research on the financial characteristics of the asset-light operation mode, domestic scholars have conducted more adequate research. Dai Tianjing (2012) studied in-depth the financial data of Apple Inc. over the past 10 years, and found that after the implementation of "asset-light" operation, the financial characteristics of Apple Inc. are as follows: high cash reserves, high liquidity of assets, low fixed assets, high research and development expenses, and high advertising expenses.[9] He Ying et al. He Ying et al. (2016), taking Dell as an example, through the study of its asset-light operation, found that its main financial characteristics are: a lot of assets that cannot be measured off-balance-sheet; a higher proportion of current assets than fixed assets; lower production costs; and higher turnover of inventories and accounts receivable [16]. Shao Jianjun and Zhang Shijiao (2019) suggest that the operation of "asset-light" is to maximise profits through the control of resources, and in the process of operation, it mainly relies on internal funds and seldom uses interest-bearing liabilities to raise funds, so it has a high proportion of interest-free liabilities.

Research on the competitive advantages of the asset-light operating model. In the opinion of Frykman and Tolleryd (2003), asset-light operation mode facilitates the change of firms from traditional production methods to resource integration and innovation by eliminating certain parts of the production process. According to Ghazvini et al. (2015), asset-light operation enables firms to focus on quality management engineering, which has a strong competitive advantage in the market and helps the enterprises to develop into industry leaders. Sun Pengxu and Xu Lijun (2020) believe that "asset-light" is a low-investment, high-return development path, and companies adopting this mode of operation are good at using high-quality external resources, thus improving their return on investment and achieving sustainable development of the company.

2.2. Current Status of Profitability Studies

As far as the current research is concerned, most of the domestic and international studies on corporate profitability focus on the internal and external factors of corporate profitability.

Regarding the internal influences of the firm, Rajan (1995) found in his study that there is a significant negative correlation between the level of leverage of the firm and the firm's profitability. Deloof's (2003) study showed that the turnover rate of accounts receivable and

inventories is positively proportional to the level of the firm's profitability. It can be seen that when evaluating the profitability of a company, it is not only based on the data related to revenues and profits, but also takes into account the level of leverage and the speed of asset turnover. Wu Lihua, Huang Jingrong (2018) empirically analysed the high-tech industry with a high level of R&D investment and found that there is a significant positive relationship between R&D investment and corporate profitability, which is an important part of the core competitiveness of the industry.

Regarding the external influences on firms, Guo Fuchu (2009) argues that the traditional corporate financial system is no longer applicable to the current economic situation, and that the impact of factors such as corporate social responsibility and industry competition on firms' profits should also be included in the influences on firms' profits. Charumathi (2012) suggests that in order to increase profits, it is necessary to find a business model that is compatible with the characteristics of the industry. Therefore, to a certain extent, the industrial environment will have an impact on the company's profit. Through empirical analysis of listed forest industry companies in China, Canada and Australia, Wang Bin and Wang Lejin (2016) found that the higher the level of vertical integration, the higher the core profitability of the company, thus putting forward the viewpoint of "vertical integration" and putting forward the "vertical integration" and put forward the suggestion of "Vertical Integration".

2.3. Literature Review

By sorting out the above literature, it can be seen that the research on asset-light operation mode firstly started from abroad, and then domestic scholars have continuously extended and expanded the asset-light operation mode on the basis of the research of foreign scholars. From the scholars' research on its connotation, we can conclude that the asset-light operation mode refers to the outsourcing of low value-added non-core business and the focus on the development of high value-added core business, a kind of value-driven capital strategy. In the process of actual operation, this operation mode will present the following financial characteristics: low proportion of fixed assets, high current liabilities, high accounts receivable turnover ratio, etc. And in the eyes of most researchers and scholars, this operation mode is the most important one. Moreover, in the eyes of most researchers and scholars, the adoption of asset-light outsourcing of production is favourable for upgrading the company and enhancing its core competitiveness. It is also understood that there are many factors that will have an impact on the profitability of the company, if you want to improve the profitability of the company, from the external point of view, you should pay more attention to the market environment and make corresponding adjustments in the strategy; from the internal point of view, you should increase the research and development, reduce the financial leverage, and improve the turnover ratio of the inventory and accounts receivable.

On this basis, this paper theoretically studies and analyses the "asset-light" business model of China's apparel industry, taking Senma Clothing as a typical apparel industry, and identifying the problems of profitability in practice through the analysis of its profitability, which provides a reference for future improvement and an example for future research.

3. Profitability Analysis of Commodity Operations

3.1. Gross Sales Margin Analysis

Gross sales margin is the ratio between gross profit and sales revenue. It is an important indicator of the level of profitability of the business process.

Table 1. Analysis of Gross Profit Margin on Sales of Senma Apparel

Items	2017	2018	2019	2020	2021
Operating income (\$bn)	120.26	157.19	193.37	152.05	154.20
Operating costs (\$bn)	77.56	94.66	111.13	90.71	88.53
Gross margin on sales (%)	35.51	39.78	42.53	40.34	42.58

Source: Netease Finance database, Senma Apparel Annual Report.

Analyses Table 1 One can know the gross margin of sales as well as the operating income and operating cost of Samsonite Apparel for these five years. The highest gross margin of sales in the last five years was 42.58% in the year 2021. From 2017 to 2019, both operating income and operating expenses are on an increasing trend. Compared to 2017, operating income increased by 30.71% and operating expenses increased by 22.05% in 2018, the increase in revenue was greater than the cost, so there was a significant increase in gross margin of sales. But in the year 2020, the gross margin decreased. But in the development of the following year, 2021 and rose again, even higher than the data of the previous years, it can be seen, in the epidemic stabilised, senma apparel's resumption of production work carried out well, the enterprise re-injected vitality development.

3.2. Inventory Turnover Analysis

Inventory turnover is a comprehensive indicator that can be used to measure and evaluate the management status of an enterprise's purchase of inventory, input into production, sales and recovery, and so on, and can be used to evaluate the enterprise's operating performance. The higher the inventory turnover rate, the higher the company's inventory utilisation rate, the lower the inventory backlog, the better the ability to realise inventory assets, the better the company's business management. On the contrary, it indicates that the management efficiency of the enterprise is low, there is a large amount of inventory backlog or stagnation, the interest paid on inventory as well as warehousing costs are too high, which will bring a series of hidden operational problems to the company.

We can find that in the past five years, the inventory turnover rate of Senma Clothing as a whole is declining, and the inventory turnover rate is mostly at 2.7. However, the standard value of inventory turnover rate of the market enterprises is 3, which can be seen that there is a problem of inventory backlog in Senma Clothing.

3.3. Operating Margin Analysis

Operating profit margin is the ratio of a firm's operating profit to its operating revenue. It measures the efficiency of an enterprise's operations without taking into account its operating expenses.

From the above equation can be concluded that the higher the operating profit margin, the stronger the profitability of the enterprise; on the contrary, the weaker the profitability. Selected the operating profit and operating income indicators to analyse the operating profit margin of the enterprise in the past five years, the specific data are shown in Table 3.

Table 2. Operating Margin Analysis of Sema Apparel

Items	2017	2018	2019	2020	2021
Operating profit (\$bn)	15.11	20.80	21.52	11.05	19.29
Operating income (\$bn)	120.26	157.19	193.37	152.05	154.20
Operating margin (percent)	12.57	13.23	11.13	7.27	12.51

Source: Flush database.

According to Table 2 data we found that the operating profit margin of Summa Apparel in 2018 reached the highest value in the last five years, but the peak of operating profit and operating income was in 2019, which was 2,152 million and 19,337 million respectively. The reason for this is that in 2019, the numerator operating profit increased by only 3.47% compared to last year, while the denominator operating income increased by 23% compared to last year, and the growth of the numerator is much smaller than the denominator, thus making the operating profit and operating income in 2019 increased compared to last year, and the operating profit declined compared to last year, and there was a decrease in corporate profitability. Here in 2020 there is a decline in the same situation as the previous article, are affected by uncontrollable factors, but in 2021 gradually rebound, can be seen in the profitability of the Senma apparel merchandising business is still good, can be adjusted as soon as possible.

3.4. Analysis of Operating Costs

In this paper, three major indicators, namely, the proportion of three expenses, cost and expense margin, and cost of main business ratio, are selected to analyse the operating costs of Samsonite Apparel for the year 2017-2021, and then to analyse its profitability.

Table 3. Samsonite Apparel Comparison of Three Costs, 2017-2021

Items	2017	2018	2019	2020	2021
Operating costs (\$bn)	106.28	138.25	166.16	135.95	131.91
Cost of sales (\$bn)	17.63	25.70	40.55	33.49	33.81
Overheads (\$bn)	6.39	5.22	10.29	8.24	6.21
Finance costs (\$ billion)	-0.79	-0.76	-1.23	-0.77	-1.03
Share of three costs (%)	19.32	19.19	25.66	26.94	25.28

Table 4. Analysis of Cost Expense Ratios and Main Operating Cost Ratios

Items	2017	2018	2019	2020	2021
Operating costs (\$bn)	106.28	138.25	166.16	135.95	131.91
Cost-expense margin (%)	14.90	18.01	13.14	8.18	14.93
Main operating cost ratio (%)	64.49	60.22	57.47	59.66	57.42

Source: Flush database.

Analyses table 3, it can be found that the financial expenses of the company are negative for the last five years, which indicates that the interest income of the company is higher than the related financial expenses and the financial risk of the company is at a relatively safe level. Observation Table 5 the financial data in the table, we can see that the cost and expense margin of Samma Clothing is rising in the year 2017-2018, but it has a cliff decline in 2018 and only recovered in the year 2021. To find out the reason, when we watch the three cost-expense weights in the last five years, we can find that its change curve is correspondingly opposite to the cost-expense utilisation change curve, which can be presumed to be mainly due to the fact that the company's three cost-expense weights are significantly higher than last year's in the year 2019, rising by 6.47%, and the denominator has increased, which has made the whole ratio data shrink. It can also be found in the past five years the company's main business income earnings contribution in the overall level of view is improved, but in the year 2020, the company's main business cost ratio in the declining trend suddenly showed an upward trend, here there is an external factor that can not be ignored - the new crown epidemic, which makes the economy tighten, the inventory of commodities backed up and a decrease in revenues.

Through the above specific analyses, it can be concluded that the profitability of Senma Clothing has been less stable in the past five years, although the operating costs have been rising year by year.

4. Analysis of the Reasons for the Unstable Profitability of Senma Clothing

4.1. Inadequate Inventory Management System and Backlog of Inventory

The apparel industry has always been an industry where products are updated relatively quickly, with different fashion elements every year, which are not only time-sensitive but also seasonal. This has contributed to the fact that the more inventory the industry has, the greater the risk of depreciation. From Table it can be seen that the size of the company's inventory increased substantially from 2017-2018, rising by \$2.033 billion in 2018 compared to 2017, with the inventory in FY18 nearly double the amount in FY17. Similarly, the ratio of inventory to current assets rose substantially in 2020. And according to the data published by the National Bureau of Statistics, the standard value of inventory turnover ratio in China's apparel industry is 3. Observe the table 5 The data in Table 5 can be found in Senma enterprise inventory turnover rate in the past four years there is a downward trend and lower than the industry standard value. It can be seen that there are problems with the inventory management of the company, and there is a large amount of inventory backlog or inventory stagnation.

Table 5. Inventories, 2017-2021

Items	2017	2018	2019	2020	2021
Inventory (\$ billion)	23.84	44.17	41.09	25.01	40.24
Percentage of current assets (%)	26.65	39.30	36.32	19.61	26.67
Inventory turnover (times)	3.38	2.78	2.61	2.74	2.71

Data source: Flush database, company annual reports

4.2. Product Homogeneity, Affecting the Brand Effect

As we all know, senma apparel enterprises under the two independent brands senma and balabala. Two independent brand development so far, for the enterprise to bring a lot of surplus, but in terms of operating profit, "senma" brand is always lower than "balabala". This is mainly due to the phenomenon of homogenisation is more obvious, the product positioning of a number of independent children's clothing brands under the Senma overlap. In addition, the Senma apparel is asset-light operation mode, the company's product manufacturing process for outsourcing, thereby reducing the investment in fixed assets, reducing production costs, but at the same time the product quality control is difficult to guarantee, affecting the enterprise's brand effect. However, with the rapid development of the economy, people's consumption level has gradually upgraded, customers pay more and more attention to the brand of the product. The decline of the brand effect, can not stimulate the customer's desire to buy, which indirectly leads to stagnant sales of goods, a decline in operating margins.

4.3. Single Mode of Financing and Increased Financial Risk

The asset-light operation mode is easy to make the proportion of fixed assets of the enterprise is reduced, and intangible assets are difficult to be accurately assessed, which is why Senma Clothing does not have enough money to loan, so they can only raise funds through stocks and bonds. However, Semma Apparel chooses equity financing as a single financing method for a long period of time, the financing cost is relatively high, which will increase the financial risk of the enterprise and is not conducive to the long-term and healthy development of the enterprise in the future. Just take the data of Senma Apparel in 2020, Senma's turnover income has declined significantly due to the impact of the epidemic of external factors, although the

enterprise has taken measures such as reducing the number of shops and selling the non-performing assets, the company's turnover is still in a significant decline because of the continued impact of the epidemic.

5. Suggestions for Improving the Profitability of Senma Clothing

5.1. Improvement of Inventory Management, Improve the Efficiency of Capital Flow

Analysing the financial statements of the last five years, we can find that the amount of corporate inventory is showing a rising trend, although during the period of 2020 by the impact of the epidemic, inventory has been reduced, but in the back of the epidemic stabilised, the economy is picking up, the size of the inventory in 2021 and began to show a rising trend in inventory turnover has also declined. In order to change this status quo enterprise on the one hand, you can learn from ZARA's "hunger marketing" strategy in the production chain, small batch production, a small number of models, to attract customers, promote consumption, reduce inventory backlog. At the same time, enterprises should also enhance the sensitivity of the information on the clothing market, catch the trend elements, in the signing of the purchase order, to reduce the accumulation of out-of-season goods. On the other hand, in the sales process, you can promote the brand from AR virtual fitting, celebrity endorsement, social effects, etc. For example, in 2021, Hongxingerke donated 50 million yuan of funds to the disaster area, and the social effect produced after the media exposure prompted the sales of Hongxingerke's products to turn over nearly 50 times, and even a variety of anti-seasonal commodities are sold out.

5.2. Improve Independent Innovation Capacity and Continue to Build Quality Brands

The homogenisation of Senma clothing products is obvious, which makes the operating income decrease. Therefore, the enterprise should increase the research on products, so that its children's brands are centred on brand value and differentiation, and the product research and development and innovation ability of the industrial chain should be improved, so as to be more clear about its own positioning, to make its products more in-depth, to make its products better match with the consumers, shops, and channels, and to make an in-depth understanding of the consumer's needs, and to constantly push forward the new, so as to achieve a comprehensive upgrade of the whole brand.

5.3. Diversified Financing Models to Reduce Enterprise Financial Risks

A single financing method will increase the company's financing pressure, while a diversified financing model can make better use of financial leverage to reduce financing risks, obtain more funds with smaller interest expenses, and enhance the capital profitability of the enterprise. Here we recommend to consider from three aspects: first, looking for a third party to supplement the guarantee to borrow from the bank. Because the asset-light operation mode makes the enterprise's fixed assets are relatively small, lack of financial institutions to provide loans collateral. The third-party guarantee can effectively solve the problem of collateral and obtain more funds for the enterprise. Second, consider the internal financing mode. As light assets are difficult to be reflected in the financial statements, outsiders lack understanding of the company, thus affecting investment behaviour. Internal employees, on the other hand, can have a relative understanding of these. This can also promote the motivation of the company's employees, which is conducive to better development of the company. Thirdly, the policy of combining low and extra dividends is adopted to reduce the cost of financing. This model allows the enterprise to make dividend payments when it is not doing well, and issue additional

dividends when it is doing well, in this way, it can attract more investors and allow the enterprise to have more capital.

6. Conclusion

This paper takes Senma Garment as a research case of implementing the asset-light operation mode, combines the company's publicly released financial data in the past five years, explores the research status of the enterprise, and analyses the profitability of Senma Garment under the asset-light operation mode in depth. The study finds that there are some problems in the production and operation of the asset-light operation mode adopted by Senma Clothing, which is not conducive to the enhancement of the profitability of the enterprise and the sustainable development in the future. In this regard, corresponding optimisation measures are proposed to address the problems, and the following conclusions are extracted:

Asset-light operation mode is, to a certain extent, conducive to the improvement of the profitability of Senma Clothing. Due to the low-cost nature of the asset-light operation mode, more non-core business will be outsourced to assembly line factories, which can reduce the production cost of products and improve economic efficiency. On the other hand, the operation mode opens up the value chain, which can be used to develop multiple fields, expand sales channels and improve brand effect through low-investment franchise chain. At the same time can also achieve multi-enterprise cooperation, joint research and development of new products, to keep up with the speed of the market update, and enhance customer loyalty. However, in the actual production and operation process, there are still the following three problems: First, inventory backlog, product stagnation leads to inventory of goods during the cost overload; Second, the development of alliance-type products lack of characteristics of the market, the phenomenon of homogenisation is serious, affecting the brand effect; Third, the light-asset operating model makes the lack of collateral to the bank to borrow, resulting in the financing mode of the enterprise monotonous, financial risk Increase. In view of the problems in the asset-light mode of operation, the company should strengthen the inventory management, improve the efficiency of capital flow, and at the same time, strengthen the product research and development, enhance the independent innovation ability of the enterprise, create a special brand, use a variety of financing modes, reduce the financial risk of the enterprise, and lay a solid foundation for the long-term development of the future.

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