

# Research on the Nature and Management of Deposit in Sharing Economy Enterprises

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**Abstract.** The sharing economy has witnessed explosive growth, and it has penetrated into many fields such as transportation, housing rental and knowledge resources, etc. The capital scale deposited on the sharing platform by such users represented by deposit has been continuously expanded, providing new ideas and methods for fund management. In accounting, the deposit is recorded as "payable accounts", which is one of the important sources of working capital. From amazon and JD to the real estate sector, payable accounts have generated positive value in working capital management. Ofo, on the other hand, is a negative example of capital management. It ignores the sustainability and turnover efficiency of working capital, and trades capital inflow for crazy expansion, which leads to the rupture of capital chain. It can be found that in sharing economy enterprises, it is significant important to appreciate the value of deposit, a huge capital pool, and fully recognize the role of deposit in working capital management, which can provide effective guarantee for the good operation of enterprises.

**Keywords:** OFO; sharing economy; payable accounts; working capital.

## 1. Research Background

In 2017, the volume of transactions in China's shared economic market was about 4.9205 trillion yuan, and the size of financing was about 216 billion yuan [1], of which the transportation and travel sector ranked first at 107.2 billion yuan with an increase of 53.2 percent over the same period last year. Sharing economy continues to develop at a high speed and plays an important role in fostering new drivers of economic development, promoting employment and driving innovation. With the number of users increasing, the scale of deposit collected by sharing platform to restrain user behavior has expanded rapidly, which is forming a huge pool of funds. Therefore, large-scale deposit management is one of the important contents of future financial management. In working capital management, to tap the potential of working capital from many angles, break through the tradition in management means and ways of management, and establish a new mode of working capital management adapted to the modern enterprise environment, which are conducive to improving the level of working capital management, as well as enhancing the core competitiveness of enterprises [3].

## 2. Deposits and Payable Accounts

Under the traditional economic model, obtaining ownership of goods is the best way to trade, whereas the main popular is packaging deposit, and it is usually one-to-one mode, in which the user can hold an item once paid a deposit in a way of cash on delivery. A deposit model adopted by a shared economic enterprise in which an account corresponds to a deposit, and the products provided by the sharing platform can be used after the deposit is paid by multiple users. At the same time, the value of the products and services corresponding to the deposit is much greater than the value of the deposit itself [4]. As long as enterprises provide products and services that meet the needs of users, there will be a steady inflow of funds. The enterprise can occupy the user for a long time without charge. A deposit, which is not payable until a user applies for a refund, is actually equivalent to a "short-term loan" received by a company, and the loan needs to be repaid without interest until it is repaid. The increase of current liabilities will enlarge the enterprise's possession of funds, and the increase of payable accounts will inevitably increase the funds available to enterprises.

### 3. A Case Study of Ofo

#### 3.1 The Rise and Fall of Ofo

In June 2015, the ofo sharing program was launched with a result of taking the lead in winning 2000 shared bikes at Peking University. Since its inception, ofo has gone through more than 10 rounds of financing amounting to 15 billion yuan, operates more than 10 million shared bikes around the world, provides more than 32 million cycling services per day, and has more than 200 million registered users [5]. The streets and alleys of ofo can be described as a new landscape of the city. However, with the emergence of other brands in the market such as mobike, small blue bike, etc. the competition becomes fierce increasingly, bringing a lot of threats to enterprises of ofo. In the whole process, ofo expands wildly, even drives Rio's overseas market, which the continuous bicycle production orders have buried hidden dangers, resulting in supply far exceeding demand and running out of money, putting enormous pressure on the company. With some smaller bike brands falling, user deposits are difficult to refund, and the community is paying more attention to the operation of shared bikes, as well as the storage and regulation of deposits. In the cold winter, sharing bicycles is even more difficult. The plight of ofo is gradually exposed by the media, with the advance of the car, many users have demanded a refund of the deposit, resulting in ofo's capital chain even more overburdened. The user does not receive the deposit late, the trust degree to the enterprise is lower and lower. There is no doubt that ofo's cash flow in the short-term can not support huge cash debt, leading to its technical bankruptcy.

#### 3.2 Characteristics of Shared Bicycle Deposit

With the increasing popularity of mobile Internet, the transaction cost of the sharing economy is gradually decreasing. Through the inflow of user deposit [6], enterprises can quickly obtain funds for their own use to cushion the pressure of funds, put into production and occupy the market as soon as possible. The shared bicycle deposit is different from the traditional deposit, which embodies its new characteristics.

The sharing economy based on deposit is a special format of the property right relationship. Property right is an important social tool for enterprises and users to trade and expected to meet reasonable expectations, which efficient property right arrangement can promote the development of economy. In the environment of continuous development of technologies such as big data and cloud computing, if enterprises reasonably separated ownership and use rights, temporarily transferred the right to use rights to users, allocated resources reasonably, it would reduced the cost of both parties in negotiation between the two parties in the transaction, pricing and supervision. With the intensification of competition in the industry, Matthew effect further appears, enterprises of technology-based and user experience-focused will occupy a major position in the market. It can be predicted that the industry giants form rapidly, a large number of users gather, as well as the contractual relationship between the two sides ensures the transfer of funds and constitutes one of the important sources of capital for enterprises. The customer-gathering effect of the platform will also promote a better focus on high-quality products or services. Through the clear division of property rights, it also defines the effective way for both sides to resolve conflicts of interest in economic activities.

The deposit represents the credit capacity of the user. Credit is the basis of sharing economy, in which the information asymmetry between users and enterprises, such as the low credit of users themselves or the low trust degree of enterprises, will affect the normal course of trading activities. A certain amount of deposit can avoid moral hazard and promote users to use products and services in a civilized and reasonable way, while improper use behavior will directly affect the credit status. If users' credit is too low, they need to pay more than average deposit in order to experience the products and services normally, which also constrains the users in the invisible.

As the amount and size of the deposit increases, the deposit value of each product is far greater than the value of the product itself, leading to the amount of the deposit become larger. With the prospect of sharing economic model being very good, the market share of large platform is getting

higher and higher, whereas the small platform is in a difficult situation, withdraw actively or be attached to the big platform by merger and acquisition, in which the trend of industry concentration is emerging. Therefore, the trend of industry concentration is obvious, the degree of user concentration is more and more high. Based on the size of both marker and user size on shared bikes have been expanded rapidly, the deposits paid by huge users have formed a certain amount of capital deposit concentrated in the industry giants, which forms a huge pool of funds.

### **3.3 The Embodiment of Deposit in Working Capital Management**

In the balance sheet, the deposit is recorded as "payable accounts", with its role mainly reflected in the time value. The time difference between the user's deposit in the enterprise, along with the time difference between the enterprise and the supplier to get the goods make the enterprise to occupy the fund free of charge for a period of time, which has double time value. On the one hand, if the enterprise immediately makes payment upon the transaction, which does not constitute payable accounts, then the financing cost within the credit term will form part of the value of payable accounts since the capital is from financing [7]. On the other hand, during the period when the user applies for refund of the deposit, the enterprise can invest in the payable accounts of the user and obtain the income. Meanwhile, during the credit period, the enterprise can calculate the income according to the time value of the currency by taking up payable accounts of the supplier. When the sharing economy enterprise receives the deposit and the credit purchase order payment, the enterprise occupies the fund to produce the value as the payment time delays. The longer the payment period of payable accounts, the shorter the cash turnover period, leading to the more benefits bring to the enterprise, and the lower the cost pay in advance. But at the same time, we should also consider our own credit problems as long-term delay may affect the reputation of enterprises, which is not conducive to the operation and long-term development of enterprises.

As a founding brand of bike-sharing, ofo has received numerous favorable comments once launched, and attracted a steady stream of funds and a large amount of cash. After the success of the initial venture, the collection of deposit also attracted a large number of funds, which constitutes the debt payable accounts. In the face of fierce market competition, minivan expanded rapidly and used a large amount of capital to deliver to suppliers for the deposit to buy bicycles. As a result, the inventory of bicycles increased and the payable accounts to suppliers in the liability increased. Minivan attempted to occupy the market in the city with more bicycles with the aim of absorbing more deposits. With the cash consuming, those bicycles placed on the market often can not play out their own value and recover the cost, which caused a certain loss to the enterprise as being damaged. Due to the intensified competition among several bicycle sharing brands, the price subsidy mode adopted in order to seize the market to make the recovery of cash for bicycle riding extremely slow. As the market gradually becomes saturated, the injection rate of deposit decreases, is increasingly unable to maintain the normal operation of cash flow. Due to the influence of users' habits and bicycle comfort, the loyalty of ofo users gradually decreases with the result of the demand for returning deposit emerging, which aggravates the tension of cash flow. The timeliness of returning deposit also affects users' trust in ofo, and the demand for returning deposit presents an avalanche growth. At the same time, suppliers no longer buy on credit, leading to an increase in the cash turnover of ofo. The failure of unreasonable financial management and working capital management results in the lack of profit sources for ofo and the sharp increase of payable accounts, which eventually leads to the technical bankruptcy phenomenon of cash deficit and huge payable accounts.

## **4. Consideration of Ofo Events**

What a pity of the fall of ofo. Several bike-sharing companies went bankrupt one after another, all of which were caused by the broken capital chain due to poor management. People pay more attention to how the deposit is operated. All the major bike-sharing platforms do not have a clear statement on the issues involved in the deposit, only some of which have formulated relevant opinions on bike-sharing, and few of which involve the deposit of bike-sharing. However, the shared economy deposit

is different from the traditional management of corporate debt items. Especially when the capital scale expands to a certain extent, the understanding and management of financial properties becomes significantly important.

Deposit is characterized by both long-term and short-term, indicating a strong financial attribute. When the deposit reaches a sufficient amount, the financial property of the fund becomes more and more prominent. As a result, the long-term nature of the fund stimulates the interest impulse of enterprises, and effective fund management is bound to bring high returns. The deposit collected by the enterprise is distributed to each user. Under normal circumstances and affected by consumption habits, if users have high satisfaction with a certain type of product and have a good user experience, they will show a high degree of loyalty, which would guarantee the long-term use of the deposit by the enterprise. As users would not apply for refund of deposit in a large scale, enterprises will not face the risk of repayment of large deposit in a sudden. In essence, enterprises need to meet users' demand for withdrawal at any time with large deposit constituting a new type of liability. Accordingly, partial capital becomes short-term again. At present, there is no financial regulators to supervise such funds in China. For enterprises, a certain proportion of funds is set to meet the demand of users for refund of deposit at any time and anywhere with the aim of ensuring the credibility and good image of enterprises. Based on this, some funds are used to support the daily production and operation of enterprises to constantly occupy the market, which plays the role of working capital in each link; another part of the fund is used for investment management. There is a variety of ways to use deposit which can be put here or there, and does not pay attention to the profitability of the deposit.

In the context of modern finance, along with considering the long-term and short-term nature of funds, it is a good choice to invest in diversified financial products, which can effectively activate the funds deposited on the platform by users. With diversified financial products in the financial market keeping innovating, there is a good environment for flexible management of funds and enterprises are increasingly using different combinations of financial instruments to effectively manage deposits to deal with liquidity risks and obtain potential benefits [8]. Modern structured products can effectively allocate resources and flexibly to meet enterprises' requirements for deposit management. According to structured products and the enterprise's different risk preferences and term cycles, part of the capital will be separated from the whole or the capital will be classified into parts with different characteristics to achieve a variety of investment and financing needs. According to the actual situation of enterprises, shared economic platform can fully consider capital safety and profitability, efficient allocation of capital, product type flexible design, investment period of different species, cope with sudden capital needs, reduce liquidity risk and improve the efficiency of capital operation, which will bring more choice for the enterprise. In addition, the implementation of penetrating supervision can make up for the shortcomings of supervision, eliminate the gaps in supervision, improve the effectiveness of supervision, effectively prevent financial risks and stimulate potential profits. Through the surface form of financial products, the essence of financial business and behavior can be clearly seen, as well as the source of funds, intermediate links and final investment can be connected through penetration, leading to the traditional framework of supervision be broken through to implement whole-process supervision [9]. Enterprises invest this part of deposit in structured products with different durations, distinguish the rights and responsibilities among different subjects through penetrating supervision and correct the problem of information asymmetry. When there is a need for capital, the capital can be used in time and space. In this way, violators can be punished and the interests of the injured can be compensated, which can not only protect the legitimate rights and interests of enterprises better, but also maximize the maintenance of the effective order of the financial market.

## **5. Conclusion**

Under the sharing economy with Internet technology as the carrier, it has changed the thinking of private assets, and used the whole social resources better. The sharing economy has penetrated deeply in various fields, and the user group has been expanding, the application field has been expanding,

and the development model has been constantly mature. At the same time, as a new economic model combining traditional business and Internet business, the sharing economy has also ushered in greater development opportunities. The deposit collected on the platform shows new properties, which can meet the capital needs of enterprises. Large-scale deposit plays a huge role in enterprise capital management. Through the analysis of the rise and fall of ofo minivans, it is supposed to realize that under the new business mode, enterprises should pay full attention to the management of accounts receivable, improve the capital turnover rate, maintain good operation of enterprises, and promote the sustainable and healthy development of the sharing economy.

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