

# Financial Flexibility Analysis of Customized Furniture Enterprises Based on OPM Strategy-Taking STY as an Example

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## ABSTRACT

OPM strategy is a capital management strategy that utilizes the position of enterprises in the supply chain, maximizes the use of upstream and downstream funds, saves their own funds, and improves the competitiveness of enterprises. Taking Suofeiya Home Collection Co. Ltd(abbreviations SFY), a custom furniture enterprise, as an example, analyzes its major indicators such as working capital turnover and financial flexibility through financial index analysis method, and finds that it implements a positive OPM strategy and effectively enhances its financial flexibility. An effective OPM strategy can provide sufficient cash flow to help custom furniture enterprises better cope with market risks.

**Keywords:** *OPM strategy, financial flexibility, customized furniture enterprises*

## 1. INTRODUCTION

Since the 21st century, China's furniture manufacturing industry has developed rapidly, from traditional handicraft industry to industrial industry, which plays an important role in promoting China's economic development. The emergence of custom furniture led the furniture industry to transform from a traditional manufacturing enterprise to a modern service enterprise, relying on the "1.0 period" of industrial growth and expansion, and switching to the "2.0 period" characterized by user operation/consumption thinking.

Enterprises lacking financial flexibility will be subject to more financial constraints in their operation. OPM strategy can effectively alleviate the problem of cash flow strain and relieve the pressure of enterprises on cash demand. In 2000, The SFY entered China through furniture products and became the leading brand in the domestic custom furniture industry. Taking SFY as an example, this paper analyzes the financial flexibility of customized furniture enterprises adopting OPM strategy.

## 2. OVERVIEW OF RELEVANT THEORIES

### 2.1. OPM Strategy

#### 2.1.1. Definition of OPM strategy

OPM (Other People's Money) strategy refers to the working capital management strategy in which an enterprise takes advantage of its competitive position, continues to expand

its scale, enhances its bargaining power with suppliers, and transfers the occupied capital and capital cost of inventory and accounts receivable to suppliers[1]. Good at using OPM strategy, can make full use of the funds in the industrial chain for their own use, save their own funds to the maximum extent, to achieve efficient use[2].

The key to the implementation of OPM strategy is to see whether an enterprise has competitive advantages in the value chain, such as product advantages and sales channel advantages. A successful OPM strategy not only helps to enhance the financial flexibility of the enterprise, but also increases the cash flow generated from operating activities[3]. By receiving part of the purchase price in advance, delaying the payment to suppliers, and reducing the purchase price, enterprises will keep a large amount of floating cash on the books for a long time. Using the cash for scale expansion can further enhance the competitiveness of enterprises[4].

#### 2.1.2. Evaluation

Under THE OPM strategy, the demand for liquidity and the control of financial risks are completely realized by the daily turnover of cash flow. Accelerating turnover is an effective way to realize the OPM strategy. The key to measure the effectiveness of the COMPANY's OPM strategy is the cash cycle. The shorter the cash cycle, the more successful the implementation of the OPM strategy of the company's working capital management[5], and the successful implementation of the OPM strategy can enhance the financial flexibility of the company[6].

OPM working capital can examine the operation effect of OPM strategy. OPM working capital is the working capital occupied in the main business of listed companies. When OPM's working capital is less than zero, the listed company

has a competitive advantage in the industrial chain and actively adopts OPM strategy to save its own capital. When OPM's working capital is greater than zero, the listed company's operating situation becomes worse, which is reflected in the statement as OPM's working capital is negative[7].

### *2.1.3. OPM strategy and custom furniture industry*

Customized furniture is produced after the individual user signs the bill to pay, therefore the capital returns quickly, does not need the enterprise to pad the capital, the capital turnover rate is high. Customized furniture industry is an emerging industry with small market base and large development space. Customized furniture can not only meet the personalized pursuit of consumers, but also reduce the inventory of enterprises, which is more conducive to the whole industry to realize on-demand production[8]. OPM strategy can enhance the bargaining power between enterprises and upstream and downstream enterprises, help enterprises form a relatively complete industrial chain, and accumulate more cash flow for enterprises.

## **2.2. Financial Flexibility**

Financial flexibility, also known as financial flexibility or financial flexibility, is essentially to improve the enterprise's ability to meet its future cash needs. The FINANCIAL Accounting Standards Board defines financial resilience as a company's ability to take effective action to change the amount and timing of cash flows in response to unexpected needs and opportunities.

Usually, cash dividend guarantee ratio, capital purchase ratio, total cash flow ratio, reinvested cash ratio and other indicators are used to measure the financial flexibility of enterprises. Enterprises with high financial flexibility can avoid financial difficulties in times of crisis, and can also obtain investment funds at low cost when profit opportunities arise.

## **3. CASE ANALYSIS**

### **3.1. Case Introduction**

SFY is a company specializing in the development, production and sales of customized furniture for the whole house. The company has been producing and selling customized wardrobes of "SFY" brand since 2003. It was listed in Shenzhen Stock Exchange in 2011 and is the first A-share listed company in the customized wardrobe industry (stock code: 002572).

The company is located in the furniture customization industry, "customization" is the core mode of the company's main business, using the order mode for production and sales. The company has strong core competitiveness, obvious brand advantages, fast store expansion, wide coverage and high popularity. The factory has implemented full flexible production in the national production base.

### **3.2. Analysis of Working Capital Turnover**

According to the major financial indicators (sub-sectors) of industrial enterprises above designated size released by the National Bureau of Statistics in 2018, the main business income of furniture manufacturing reached 708.17 billion Yuan, up 4.5% year on year. In 2018, the SFY's main business revenue reached 7.267 billion Yuan, up 18.84 percent year-on-year. The company's share of furniture manufacturing has steadily increased from 0.2% in 2011 to 1.03% in 2018.

As shown in Table 1, the OPM working capital of SFY in the last five fiscal years is all negative, indicating that it has a competitive advantage in the industrial chain and actively adopts OPM strategy to save its own capital.

Table 2 listed SFY nearly five years the main financial indicators, the total assets of the business income was the main result of enterprise management, to ensure a profit of the enterprises, its operating income and net income is steadily increasing year by year, its operating income growth rate of 35%, 41%, 36%, 18.66%, the growth trend is good, the current liabilities increased year by year, capital takes up in good condition, we can clearly see that SFY company as an industry leader, has a lot of advantages in the fierce competition in the industry, a good momentum of development. In fiscal year 18, the net cash flow generated by operating activities increased or decreased by -11.50% year-on-year, mainly due to the slow growth of net cash flow generated by operating activities, the increase of bulk engineering business, the settlement according to the contract, resulting in the increase of receivables.

An important indicator to examine the working capital turnover is the cash turnover period, which is a key indicator to measure the effectiveness of the company's OPM strategy. Table 3 shows the calculation process of the cash turnover period of SFY in the past five fiscal years.

As can be seen from Table 3, the cash turnover period of 2016 and 2017 is negative. The funds they occupied in inventory and accounts receivable are completely solved by the supplier. SFY can occupy the funds provided by the supplier for about 2 days for free. The positive cash turnover in fiscal year 18 is mainly due to the large increase in the end accounts receivable business items in the current year, leading to the increase in the accounts receivable turnover. The turnover period of accounts payable is 21 days, and the capital occupation is good, indicating that the company has a greater say in the supply chain.

**Table 1** OPM Working Capital Unit: RMB/YUAN

Project/Time	2014/12/31	2015/12/31	2016/12/31	2017/12/31	2018/12/31
Notes receivable	22328464.58	1145718.68	5500000.00	0.00	189516265.83
Accounts receivable	61896231.97	70977426.60	119630681.83	223738974.72	406573169.30
Prepayments	21649990.35	24278261.03	69571975.21	92968433.74	61957604.98
Inventory	142441178.48	197031953.12	268584043.89	286914470.00	302889820.42
Accounts payable	138587318.64	227379520.72	413783362.04	552058793.33	671733695.46
Advance payment	73564111.07	119321095.04	410369500.73	485864819.10	534776680.93
Payable taxes	57419584.65	87609238.36	108592535.14	211327425.42	188720668.16
Pay of staff	48919500.06	82788711.76	99077920.57	137249599.32	127750801.08
OPM Working Capital	-70174649.04	-223665206.45	-568536617.55	-782878758.71	-562044985.10

**Table 2** Main Financial Indicator Unit: RMB/100 million YUAN

Project/Time	2014/12/31	2015/12/31	2016/12/31	2017/12/31	2018/12/31
The total assets of	25.33	31.54	53.38	70.60	78.12
The total amount of liabilities	4.52	7.31	13.46	21.45	24.54
Among them: current liabilities	4.11	6.67	12.91	18.15	21.88
Shareholders' equity	20.81	24.23	39.92	49.15	53.58
Operating income	23.61	31.96	45.30	61.61	73.11
Net profit	3.31	4.52	6.38	9.05	9.64
Operating cash flow	3.52	8.30	11.93	12.43	11.00
Capital expenditure	4.15	6.46	6.02	11.39	7.35
Cash paid to repay a debt	0.00	0.00	0.91	3.28	5.42
Cash that distributes dividends, profits, or pays interest	1.18	1.70	2.53	3.44	4.55
Return on capital (Net Profit/Shareholders' equity)	0.16	0.19	0.16	0.18	0.18

**Table 3** Cash Turnover Unit: RMB/YUAN

Project/Time	2014/12/31	2015/12/31	2016/12/31	2017/12/31	2018/12/31
Accounts receivable 1	61896231.97	70977426.60	119630681.83	223738974.72	406573169.30
Inventory 2	142441178.48	197031953.12	268584043.89	286914470.00	302889820.42
Accounts payable 3	138587318.64	227379520.72	413783362.04	552058793.33	671733695.5
Sales revenue 4	2361084401.71	3195738720.76	4529964328.40	6161444143.42	7310892202.73
Receivable turnover 1*365/4	9.57	8.11	9.64	11.17	24.09

Project/Time	2014/12/31	2015/12/31	2016/12/31	2017/12/31	2018/12/31
<b>Inventory turnover 2*365/4</b>	22.02	22.50	21.64	14.32	17.94
<b>Accounts payable turnover 3*365/4</b>	21.42	25.97	33.34	27.56	39.79
<b>Cash turnover period</b>	10.16	4.64	-2.06	-2.07	2.24

### 3.3. Financial Flexibility Analysis

Relevant studies have found that the effective use of OPM strategy can significantly enhance the financial resilience of enterprises. Table 4 lists four financial indicators related to operating cash flow to judge financial resilience: total cash flow ratio, cash flow liability ratio, capital purchase ratio and cash dividend guarantee multiple.

Can be found by calculation, SFY, the company operating cash flow to current liabilities ratio index changes in the range of (0.67 1.24), said in the process of enterprise management of current liabilities to pay has a reliable guarantee, shows that the enterprise business activities generated cash flows can guarantee enterprise on schedule to repay debts that are due, the enterprise working capital utilization is good, strong earnings. The average cash dividend cover ratio of SFY in the last five fiscal years is 3.72, indicating that the enterprise has sufficient cash to pay

dividends and strong ability to pay cash dividends. The capital purchase ratio in the last four fiscal years is all greater than 1, indicating that the enterprise can rely on its own operation to meet the funds needed for expansion. There are obvious numerical fluctuations, and the enterprise has good capital flow but obvious fluctuations will occur. The ratio of all cash flows has been decreasing year by year since the fiscal year of 2015, the lowest is 0.23, indicating that the company's net cash flow generated from operating activities has been decreasing year by year in its ability to meet the cash needs of investment and financing. In general, SFY has strong profitability, increased operating income year by year, large cash flow but fluctuations, effective implementation of OPM strategy and ideal financial flexibility.

**Table 4 Financial elasticity Index Unit: YUAN**

Project	2014/12/31	2015/12/31	2016/12/31	2017/12/31	2018/12/31
<b>Cash flow from operating activities 1</b>	<b>352256557</b>	<b>829701287</b>	<b>1192585361</b>	<b>1242681585</b>	<b>1099798632</b>
<b>Financing cash outflow 2</b>	118176830	169661209	346854551	686706070	1164777584
<b>Investment cash outflow 3</b>	614899136	1376287862	2600719918	4106316866	3694046307
<b>Total cash flow ratio 4=1/(2+3)</b>	0.48	0.54	0.40	0.26	0.23
<b>Current liabilities 5</b>	411048514	666562225	1032539809	1094063971	1643538964
<b>Operating cash flow to current liabilities ratio 6=1/5</b>	0.86	1.24	1.16	1.14	0.67
<b>Capital expenditure 6</b>	414899136	646387862	601515422	1139316866 .42	735340804
<b>Capital purchase ratio 7=1/6</b>	0.85	1.28	1.98	1.09	1.50
<b>Cash dividend payment amount 8</b>	118176830	169661209	252688835	343777969	454970660
<b>Cash dividend cover ratio 9=1/8</b>	2.98	4.89	4.72	3.61	2.42

#### **4. CONCLUSION**

Customized furniture has grown rapidly in recent years, albeit at an early stage, but generally at a good pace. The convergence of industrialization and information technology has facilitated transformation, transformation and upgrading of traditional industries and the transformation of China's furniture industry from relying on cost competition to improving service level, enhancing product technology content and product added value. However, due to the declining sales growth of the real estate industry, the increase of operating costs caused by the flow of diversified channels, intensified competition and other factors, the growth of the industry began to slow down.

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