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Operation Status Analysis and Promotion Strategy of BRIGHT DAIRY

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ABSTRACT

As an established domestic dairy company, BRIGHT DAIRY, together with MENGNIU and YILI, used to be called "the three giants of the industry". However, the industry giant in the past now lags far behind MENGNIU and YILI. The development process of this is worth studying. This paper takes BRIGHT DAIRY as the research object, firstly introduces the enterprise situation and the industry environment. Secondly, the paper analyzes the financial data of 2018-2020 from three aspects: debt-paying ability, operation ability and profitability. Finally, the enterprise's current situation is analyzed from the perspectives of strengths, weaknesses, opportunities and threats, and development suggestions are given.

Keywords: *BRIGHT DAIRY, Debt-paying ability, Operation ability, Profitability, Financial indicators.*

1. INTRODUCTION

Financial analysis is an unavoidable key link in the process of enterprise management. Debt-paying ability, operation ability and profitability are the cores of financial ability.[1] Now there are many brands in the dairy industry and the internal competition is becoming increasingly fierce. The market share of Bright Dairy has been shrinking, and its market competitiveness is far from Mengniu and Yili. Therefore, it is necessary to analyze Bright Dairy to find out the problems and put forward strategies for the long-term development of the company.

2. ENTERPRISE PROFILE

Bright Dairy is an established enterprise in the dairy industry. Its main business is dairy research and development, production and sales, dairy farming and logistics distribution. [3]In 2007, Bright Dairy put forward the development strategy of "focusing on dairy, leading fresh, strengthening normal temperature and breaking through milk powder".[3] In 2008, Bright Dairy successfully launched the product "Mosilian" and became the first enterprise selling normal temperature yogurt in China. In 2010, Synlait Milk was acquired by Bright Dairy and successfully listed, marking the full start of the company's international layout.[3]

3. INDUSTRY SATATUS QUO

Based on Michael Porter's Five Forces Model, this paper analyzes the industry environment from five aspects: bargaining power of suppliers, bargaining power of consumers, threat of alternative products, threat of potential entrants and threat of existing competitors.

3.1. Bargaining Power of Suppliers

More and more enterprises are increasing the milk source layout through self-construction, acquisition and other ways.[2] Dairy industry is gradually realizing automatic control of milk source. Take Bright Dairy as an example, in recent years, Bright Dairy continued to promote the construction of milk source pasture to expand the milk source base, has achieved 100% refused to buy loose milk. This has greatly weakened suppliers' bargaining power.

3.2. Bargaining Power of Consumers

At present, there are many brands of dairy products and similar products emerge in endlessly. Consumers have large choice space and low switching cost. Dominant position in the transaction increases the bargaining power of consumers.

3.3. Threat of Alternative Products

Milk has strong substitutability. Traditional substitutes include soy milk, fruit juice and so on. In recent years, sugar-free milk tea and bubble tea have also attracted a large number of consumers with their novel taste, posing a potential threat to the sales of traditional dairy products and becoming powerful alternative products.

3.4. Threat of Potential Entrants

Milk is a drink of great nutritional value and the market demand is very optimistic. Many enterprises want to enter the market, but the dairy industry has a larger barrier to entry. First, the dairy industry has formed a certain degree of brand loyalty, people tend to buy familiar products, emerging brands have difficulty in competing for brand recognition. Secondly, the separation, cold treatment, concentrated fermentation, sterilization and preservation of raw milk all rely on professional technology, which requires higher requirements for entrants.[4] Finally, due to the characteristics of high investment amount and long return cycle, the dairy industry also puts forward extremely high requirements on the capital strength of the entrants.

3.5. Threat of Existing Competitors

At present, the dairy industry ushered in a golden age of development. There are traditional brands such as Mengniu，Yili and Bright Dairy, while there are smaller brands such as Vitasoy and VV Milk.[5] Foreign brands have entered the Chinese market one after another, such as the Australian brand "Devondale" and the New Zealand brand "Anchor", which have attracted many consumers with their high quality. The industry is extremely competitive.

4. FINANCIAL INDICATORS ANALYSIS

4.1. Short-term Solvency Analysis

Debt-paying ability is divided into short-term ability and long-term ability, which are respectively considered from the perspective of capital strength and financial risk. This paper use the current ratio, quick ratio and cash ratio three indicators to analyze the short-term solvency of Bright Dairy.

4.1.1. Current Ratio and Quick Ratio

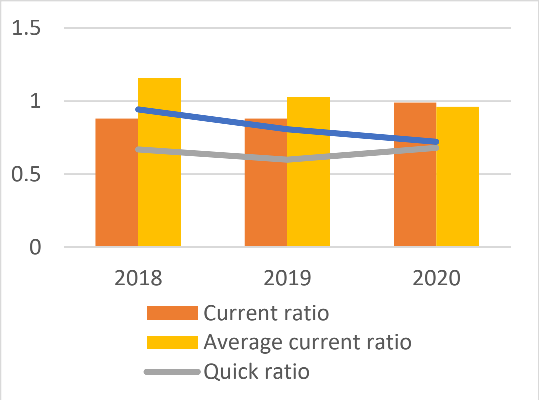

Figure 1 Current Ratio and Quick Ratio

Current ratio = current assets/current liabilities, quick ratio = quick assets/current liabilities.

As a revision of current ratio, quick ratio eliminates the influence of assets with poor liquidity capacity such as inventories, and can more reliably reflect the short-term solvency of enterprises. The higher the current ratio and quick ratio, the stronger the liquidity of assets, which means that when a crisis occurs, more current assets will offset current liabilities.[6] This facilitates the repayment of short-term debts. Theoretically speaking, the standard of current ratio is 2 times and quick ratio is 1 times.

Only according to the theoretical standards, the indicators of Bright Dairy and even the whole industry are not ideal, but these two indicators have defects that they ignore the enterprise strategy and industry differences and other factors. Therefore, it is more appropriate to judge the performance of enterprises in the industry according to the average level of the industry.

In recent three years, the current ratio of Bright Dairy has changed stably while the quick ratio has fluctuated slightly. The overall performance of the two is stable, but there is a certain gap compared with the industry average. Analyzing the liquidity of assets, the quantity is important, but the underlying liquidity is also important. Most of Bright Dairy's inventories are low-temperature pasteurized milk with short shelf life and high storage cost. The dairy industry has always faced the problem of serious product homogenization. The fierce internal competition increases the choice space of consumers, which reduces the liquidity ability of Bright Dairy's inventory and makes it difficult for the inventory to flow quickly. The analysis of liquidity is not only the single comparison of index values, but also the liquidity of assets. Based on the above points, this paper holds that Bright Dairy has obvious disadvantage in the liquidity of assets in the industry.

4.1.2. Cash Ratio and Cash Flow Ratio

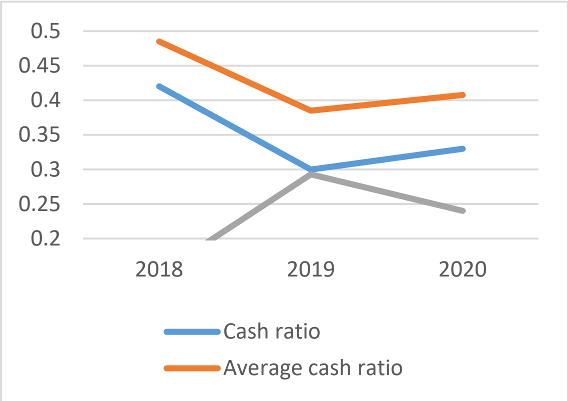

Figure 2 Cash Ratio and Cash Flow Ratio

Cash flow ratio = cash flows from operating activities/current liabilities, and cash ratio = (cash + cash equivalents)/current liabilities. Cash ratio further excludes the influence of unstable assets with liquidity capacity such as accounts receivable, and is the most stringent index to analyze corporate liquidity. [6] In 2019, the two indexes of Bright Dairy basically converged. In this year, Bright Dairy made its first foray into the baking industry by investing and opening a high-end bakery store "Bright Baking". At that time, it was also speeding up the layout of milk source bases and investing a lot in the construction of milk source bases in East China and North China. Large-scale investment made Bright Dairy's cash asset holdings low in that year, which pulled down its cash ratio. However, the monetary funds in that year mainly came from the cash flow created by operating activities, and the cash flow ratio reached the highest in recent years.

This reflected the strong "hematopoietic" ability of the enterprise, and 2019 had also become the most outstanding year for Bright Dairy's operating results. In 2018 and 2020, the cash ratio of the company was higher than the cash flow ratio. In these two years, Bright Dairy did not carry out large-scale investment and merger, and the company held a certain amount of cash assets inside.

From the perspective of the whole industry, Bright Dairy's overall cash ratio is low. According to the balance sheet data, from 2018 to 2020, the ratio of accounts receivable of Bright Dairy to total assets is 9.1%, 9.2% and 8.9%. The excessively high proportion reminds the enterprise to strengthen the recovery of accounts receivable and appropriately increase the holding of cash assets to maintain a certain short-term solvency.

4.2. Long-term Solvency Analysis

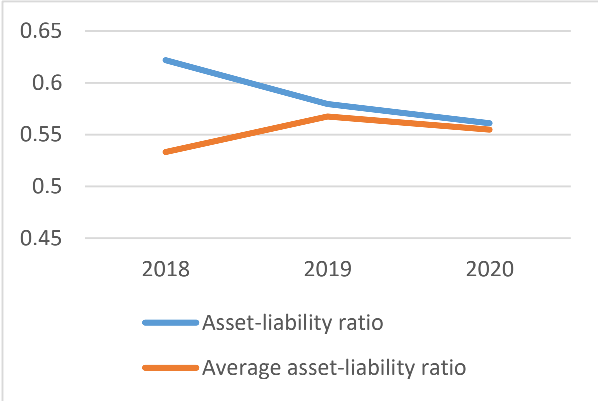

Figure 3 Asset-liability ratio

Asset-liability ratio = total liabilities/total assets, which is used to measure the debt level and risk degree of an enterprise. The theoretical standard of this index is about 50%, but the overall level of asset-liability ratio of the dairy industry is obviously higher than this standard.[7]

The asset-liability ratio of Bright Dairy has always been higher than the average of the industry. The excessively high debt ratio reflects that the financing method of the enterprise is relatively simple, and the combination of debt financing and equity financing is not well achieved, resulting in the unreasonable capital structure of the enterprise.

Although the cost of debt capital is lower than the cost of equity capital, borrowing can reduce the company's weighted average cost of capital to some extent. However, excessive financial leverage will also bring about greater financial risks. In the past three years, the asset-liability ratio of Bright Dairy has gradually decreased, indicating that the enterprise has paid attention to this, and the practice of reducing the debt scale has shown initial results.

4.3. Operational Capacity Analysis

Operating capacity analysis is mainly used to evaluate the capital turnover status of enterprises and the use effect of various assets. This paper use inventory turnover, accounts receivable turnover and fixed assets turnover three indicators to analyze the operation capacity of Bright Dairy.

4.3.1. Inventory Turnover and Accounts Receivable Turnover

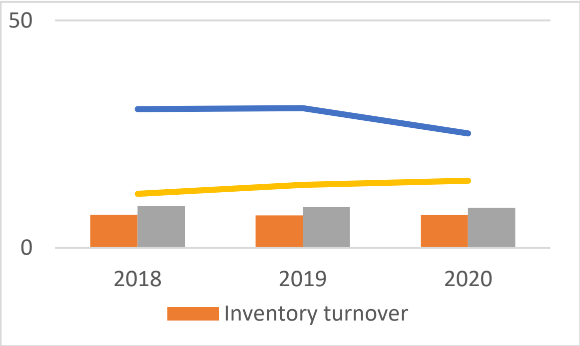

Figure 4 Inventory and Accounts Receivable Turnover

Inventory turnover = operating cost/average balance of inventory. Generally, the higher the inventory turnover, the stronger the operating capacity of the enterprise. [7] The inventory turnover rate of Bright Dairy is always lower than the average level of the industry and the inventory overhang problem exists for a long time, which indicates that the enterprise has a big problem in inventory management and lacks efficiency in the management of operating assets.

Accounts receivable turnover = operating income/average balance of accounts receivable. A high turnover of accounts receivable indicates that the enterprise collects accounts quickly and has strong liquidity of assets, which can reduce collection expenses and bad debt losses.

The rising turnover index shows that Bright Dairy has paid attention to the receivables problem and is gradually increasing the recovery efforts. But its turnover level is still far below the industry average. Generally speaking, the increase of accounts receivable is related to the growth of operating income and the extension of the settlement cycle. In recent years, the operating income of Bright Dairy has maintained a small increase, but the amount of account recovery is not high. This shows that enterprises need to promote sales to obtain customers through credit sales and other loose credit methods, which again confirms the fact that their market competitiveness is declining.

4.3.2. Fixed Assets Turnover

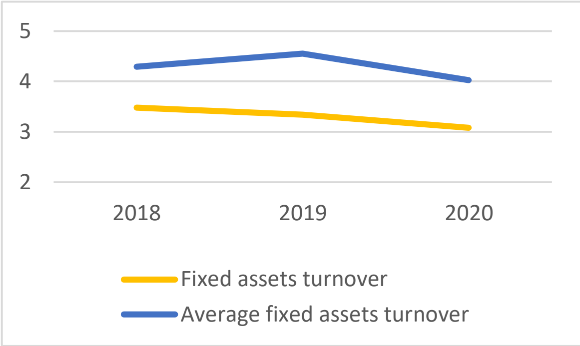

Figure 5 Fixed Assets Turnover

Fixed assets turnover = operating income/average balance of fixed assets, reflecting the effective utilization of fixed assets and the investment situation.

Bright Dairy's fixed assets turnover is lower than the average level of the industry and decreases year by year. This is mainly related to its efforts to improve the layout of milk source base and increase the investment in research and development equipment in recent years. The balance sheet shows that the fixed assets of Bright Dairy in the past three years are 593 million, 759 million and 837 million. The size of fixed assets that exceed income growth pulls down the level of turnover. This reminds Bright Dairy should pay attention to the problem of the large-scale scrap and depreciation of machinery and equipment.

4.4. Profitability Analysis

The strength of profitability is directly related to the survival and development of an enterprise. This paper use gross profit margin,net profit margin,ROE and ROA four indicators to analyze the profitability of Bright Dairy.

4.4.1. Gross Profit Margin

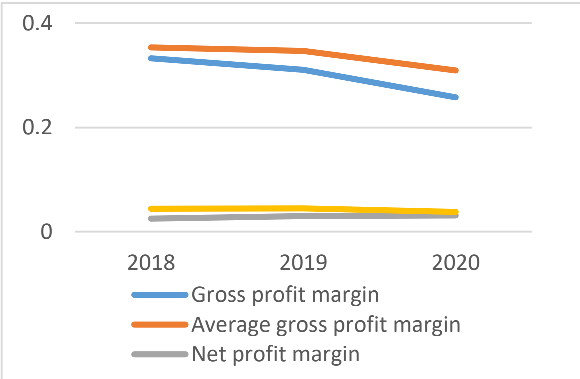

Figure 6 Gross Profit Margin

In order to optimize the milk source, the high cost affected the profit of Bright Dairy, and the gross profit margin decreased year by year from 2018 to 2020. The

COVID-19 has led to a further increase in the price of raw milk, and the cost pressure brought by this has led to a drop of 30% in Bright Dairy's gross profit margin in 2020. The cost management has not reached the ideal level, resulting in the continued low sales gross profit margin, which puts forward higher requirements for the cost control work.

4.4.2.Net Profit Margin

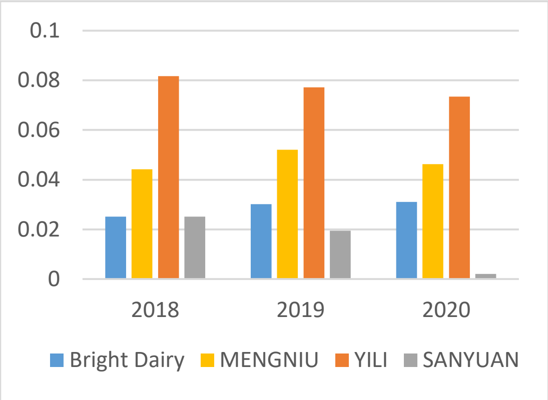

Figure 7 Net Profit Margin

Bright Dairy's net profit margin rose slightly in the past three years. Combined with the income statement, expenses during 2018-2020 accounted for 27.92%, 25.05% and 20.72%, indicating that enterprises have strengthened the control of expenses during the period. In 2020, excluding the 200 million yuan of government subsidies received, Bright Dairy achieved a profit growth of 0.02%, and its net interest rate remained at a relatively stable level.

Horizontally, Yili's net profit margin is the best. Although it has decreased in recent years, it is still far higher than Bright Dairy, Mengniu and Sanyuan. In general, Bright Dairy's net profit margin did not rank in the forefront of the industry, but more stable. At present, the industrial upgrading and digital transformation of Bright Dairy are still in progress, and it is expected that the profitability will be improved to a certain extent.

4.4.3.ROA and ROE

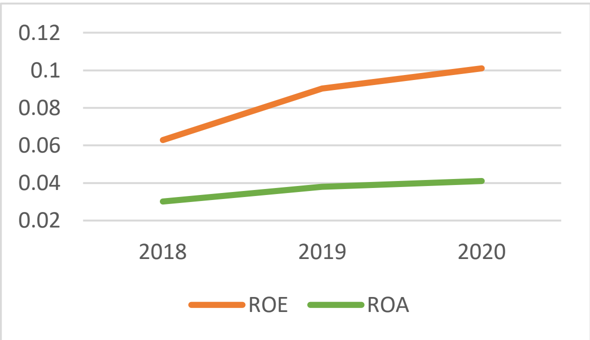

Figure 8 ROA and ROE

Bright Dairy's ROA increased slightly in the past three years. After being occupied by Mengniu and Yili in 2018, Bright Dairy has made efforts in industrial transformation and upgrading, control of expenses and increase of income. These adjustments have achieved initial results, and the profitability of enterprise has rebounded somewhat.

Creating value for shareholders is the ultimate goal of a company's management. Net income is the return that shareholders receive on their equity in a company and ROE is a measure to analyze the company's ability to create value for shareholders.[6] Compared with the same industry, Bright Dairy's ROE is not outstanding. ROE is influenced by a combination of net profit margin, total asset turnover, and equity multiplier. Bright Dairy's net profit margin is not outstanding enough, which produces a direct constraint to the growth of its ROE.

ROE is not an isolated indicator. If Bright Dairy wants to improve its ROE, it must start with the improvement of investment efficiency, fund-raising efficiency, operation efficiency and tax planning efficiency.

5. THE CURRENT SITUATION OF BRIGHT DAIRY

This paper adopts SWOT analysis method to analyze the current situation of Bright Dairy from four perspectives: advantages, disadvantages, opportunities and threats.

5.1. Strengths Analysis

First, actively explore new businesses. In 2019, Bright Dairy entered the baking industry and opened "Bright Baking", which received a warm response from the market. The web celebrity products such as White Rabbit Creamy Candy flavored milk and Mosleian yogurt ice cream were sought after by many consumers. Second, develop new retail and promote digital transformation.

Bright Dairy has partnered with Ali Cloud to promote further development of online sales. The upgraded APP provides consumers with a more comfortable consumption experience.

5.2. Weaknesses Analysis

The normal temperature market is underdeveloped. As FMCG products, normal temperature milk, which is easier to store, is bound to become the mainstream product. However, Bright Dairy ignored this factor and insisted on developing fresh low-temperature milk, finally missing the normal temperature market.

Cost control pressure is too high. Low temperature pasteurized milk is the main product of Bright Dairy, from raw material screening to production and processing, the cost is much higher than normal temperature milk. High costs undermine Bright Dairy's competitiveness.

Sales scope is limited.Bright Dairy's market scope is fixed in Shanghai and other eastern China, but it lacks market competitiveness in North China, Southwest China and Northwest China.

5.3. Opportunities Analysis

The potential demand is huge. In the face of COVID-19, people have gained a deeper understanding of health issues. Dairy products are rich in nutritional value and are bound to be more popular with consumers in the future. Potential market demand is a rare development opportunity for Bright Dairy.

"The Belt and Road" continues to advance. In recent years, the construction of "The Belt and Road" coincides with the globalization strategy that Bright Dairy has always emphasized. If Bright Dairy can meet the opportunity to promote overseas cooperation, its globalization development will be more smooth.

5.4. Threats Analysis

Dairy products always have the problem of serious homogenization and strong substitutability, which puts forward higher requirements for product innovation. But the lack of "star products" has been a big problem for Bright Dairy. In addition, competition in the industry has become increasingly fierce, and many foreign brands have entered the Chinese market. The development of Bright Dairy faces numerous challenges.

6. DEVELOPMENT SUGGESTIONS OF BRIGHT DAIRY

Strengthen the construction of sales channels, improve the brand influence in northwest, north and southwest areas. Bright Dairy should continue to promote new retail, maintain good cooperation with Ali Cloud, and speed up online sales work; At the same time, Bright Dairy should accelerate the research and development of "star products", transform and upgrade traditional products, and pay more attention to the innovation in taste, packaging and product types.

Improve inventory management level. Bright Dairy should reasonably evaluate the market demand and make a suitable production plan. For long-term unsalable products can be sold at a discount to maintain a smooth sales chain.

Improve the receivables collection system. Prudently evaluate the asset level and credit status of customers, and implement more stringent credit policies. For receivables within the repayment period, the company can use the cash discount appropriately to collect the receivables as soon as possible.

Bright Dairy should appropriately reduce the proportion of debt and try to diversify financing. Equity financing can be carried out by issuing additional shares. At the stage of higher financial risk, endogenous financing can be carried out by reducing dividends and increasing retained earnings.

Aiming at the cost pressure caused by the high cost of low-temperature milk production. Bright Dairy should adjust the product structure appropriately and improve the proportion of normal temperature milk. In addition, the sales cost of Bright Dairy is too high. It is suggested that Bright Dairy should innovate marketing methods and develop more online marketing. Social software such as Weibo and WeChat can be used to improve the efficiency of capital use and control cost input.

7. CONCLUSION

This paper makes a comprehensive analysis of Bright Dairy and finds that it has problems such as limited sales market, insufficient asset management level, unreasonable capital structure and so on. Then the paper analyzes the current situation of Bright Dairy and puts forward countermeasures. Hopefully this article can bring help to Bright Dairy's future operation and provide some development ideas for other enterprises with similar problems.

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