



Analysis of SF Express's Strategic Risk—Based on 2018–2020 Annual Report of Financial Statements

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Abstract. In 1993, SF Express was born in Shunde, Guangdong Province. After some years of development, SF Express was listed on the Shenzhen Stock Exchange in 2017. At present, this company has become a leading enterprise in China's express industry. Recently, SF Express released its performance forecast for the first quarter of 2021, with a loss of 900 million to 1.1 billion, which shocked the whole stock market and led to a decline in the share price of SF holdings on the same day. According to the annual reports of SF holdings with its current situation of the industry, this paper will analyze the internal control and risk management policies of SF holdings and the problems faced by the whole industry, and adopt a variety of methods to analyze the inter environment and internal environment, further identify the strategic risk. In conclusion, SF express needs to upgrade its internal control and better handle the relationship between customers, employees and management, so as to take the lead in the future and become the absolute leader of China's express industry.

Keywords: SF express · internal control · strategic analysis · express enterprise

1 Introduction

SF is one of the largest express enterprises in China. Also, it obtained the approval of the CSRC and was approved to log in the A-share market in 2016. On February 24, 2017, it was officially renamed SF holdings, with stock code of 002352[1–3]. SF is a leading integrated express logistics service provider in China. After years of development, it has initially established the ability to provide customers with integrated logistics solutions [4, 5]. It not only provides high-quality logistics services at the distribution end, but also extends to the production, supply, marketing and distribution links at the front position of the value chain. According to the needs of consumers, SF takes data as the traction, and uses big data analysis and cloud computing technology. These steps can provide customers with a package of solutions such as intelligent warehouse management, sales forecast and big data self-service analysis. SF is also an intelligent logistics operator with the advantage of network scale, with a business model of strong control over the whole network [6–8].

On July 13, 2021 SF holdings, disclosed the performance forecast. It is estimated that the net profit attributable to shareholders of the listed company in the first half of 2021 will be 640–830 million yuan, a decrease of 78% - 83% compared with 2020. After a loss of 989 million yuan in the first quarter, the company expects to achieve a profit of 1.629 billion yuan - 1.819 billion yuan in the second quarter, and the performance in the second quarter has improved significantly.

As for the improvement of performance, SF Holdings said that on the one hand, the company strengthened the integration and optimization of resources such as venues and lines of express network, express network, storage network and franchise network, so as to alleviate some capacity bottlenecks. On the other hand, the company's cost control indicates that the growth of business volume drives the dilution of the cost of fixed assets [9].

In addition, as the second quarter was in the peak season of fresh period. Therefore, the express business with better profitability of SF holdings rebounded [10]. It is worth noting that although the performance in the second quarter improved significantly month on month, due to the large loss in the first quarter, there is still a large gap between the performance of SF holdings in the first half of the year and the same period last year. The company expects a loss of -530 million yuan to -400 million yuan in the first half of 2021, including -1134 million yuan in the first quarter. Before the loss in the first quarter of 2021, SF Holdings has not suffered a loss since its listing. Wang Wei, chairman of the company, also publicly apologized to investors at the shareholders' meeting for the sharp decline in performance. As for the reasons of the loss, SF said that on the one hand, because the company increased new business development and resource investment, the company's cost was under short-term pressure. On the other hand, the number of on-the-job personnel and salary costs increased significantly due to the promotion of Chinese new year during the spring festival in the first quarter of this year. In addition, due to the strong demand of e-commerce in the sinking market, the business volume of preferential and special distribution of the company's economic express products is growing rapidly, and the pricing of this part is low, which affects the overall gross profit margin to a certain extent. It reveals that in addition to the decline in performance caused by SF Holdings' own factors, the intensification of market competition also reduced the company's single item income.

As for the operating data, the economic and express products of SF holdings account for more than 80% of the operating revenue. Among them, the economic express products achieved a significant year-on-year increase of 64% in 2020, and the proportion in the operating revenue rose to 28.67%. The more competitive the express industry is, the more low-cost products.

With the increasingly fierce competition in the express industry, low price competition has become the mainstream of this industry. It indicates that the problem of value damage in the express industry has always been on the supply side. Also, all the value created by express enterprises is conducive to the e-commerce industry chain. The uncertainty of short-term profits of listed express companies and the dependence of market value on the company's long-term competitiveness are the characteristics of this stage. However, with the tightening of supervision, the Internet play of money burning

subsidies and horse racing enclosure will not continue. The vicious price war has fallen behind for a while, and the profits of listed express companies will be repaired.

2 SWOT Analysis

2.1 Advantage Analysis

The advantages of SF Express mainly include: speed advantage, brand image advantage, coordination of network intensive direct sales management mechanism, etc. SF has strong timeliness and when customers have more expensive packages, SF will also be the first choice. Its long-standing good brand and reputation are not available in other enterprises.

2.2 Disadvantage Analysis

However, this company also has some limitation. For example, the lack of its own e-commerce business support. With the mature development of e-commerce self operated logistics, the e-commerce business volume of SF has been greatly impacted. Due to the lack of e-commerce business support, SF lacks a flow entrance. Under the heavy asset operations, the financial performance was dragged down. The direct marketing model consumes a lot of resources and the debt ratio of SF is relatively high. SF has no advantage in net interest rate either. Only in terms of growth ability, it performs well. Therefore, it should also be tested by investors in the capital market. Also, insufficient fund-raising capacity and stamina are essential problems. Unlike the express companies like ZTO and YTO, which are backed by giant company of Ailibaba, and JD is supported by Tencent. Therefore, SF Express can only rely on itself and has less room for mistakes. Due to the price is more expensive, SF is positioned on the concept of fast and safe transportation service, so its pricing is higher than that of other companies in the industry. In addition, the lack of excellent management talents and international talents are also should be concerned, and the labor cost tends to rise.

2.3 Opportunity Analysis

First, the policy support is the most important opportunity for SF express and other companies. The report of the 19th CPC National Congress proposed to promote the deep integration of the Internet, big data, artificial intelligence and the real economy, and issued the opinions of the general office of the State Council on promoting the coordinated development of e-commerce and express logistics. Secondly, the scale of online consumption is huge, and the express market is still in the growth stage. Thirdly, foreign-funded enterprises still have disadvantages.

2.4 Threat Analysis

At present, peer competition intensifies and profit margins decline. In recent years, the gap between SF Express and several typical franchised express operators operating

with light assets is narrowing, and the speed and security advantages of SF Express are gradually shrinking. The growth of the whole year in 2020 depended more on high-end brands entering the low-end market (low-end business increased from 25.63% in 2019 to 28.43%). However, the brand power of SF express, as a brand, will decline (from 50.38% in 2019 to 43.09% in 2020). In addition, increased operating costs are also should be focused. In recent years, SF network has sunk and expanded to rural and remote areas such as counties and townships, and the pressure of capital investment and operation has gradually increased. Moreover, while penetrating into the low-end market, SF Express did not expand well in the high-end market. The impact of e-commerce platform is another factor should be solved. JD and other e-commerce self operated logistics rely on capital giants. On the other hand, they enjoy the order advantages of e-commerce platform, which has had a great impact on the customer base of SF Express. In 2019, the logistics business volume of JD has surpassed SF and become a new logistics upstart in that year.

3 Identification and Assessment of Strategic Risks

3.1 Political Environment

By comparing the complaint rate and effective complaint rate of several major express companies, it is found that the complaint rates of Jitu express, STO, Yunda and ZTO are below the average level, and the distance from the average complaint rate is large, while as the leader of the express industry, the complaint rate of SF Express is 3.5%, which is close to the industry average level, and its effective complaint rate is only 0.02%, far lower than the industry average effective appeal rate of 0.39%.

Among the reasons for SF Express's appeal, the express damage rate was 1.73%, more than twice the industry average of 0.67%, and accounted for more than half of the reasons for SF Express's appeal.

With the further refinement of express industry standards and the improvement of laws and regulations in the express industry, the legal responsibilities of the express industry are becoming more and more clear. Article 27 of the Interim Regulations on Express Delivery stipulates that if the express delivery is delayed, lost, damaged or the contents are short, the liability for compensation for the insured express delivery shall be determined in accordance with the insurance rules agreed between the enterprise engaged in express delivery business and the senders. For uninsured express items, the liability for compensation shall be determined in accordance with the relevant provisions of civil law. According to the investigation, SF Express is facing more and more legal lawsuits due to the rising rate of lost items and complaints, and more and more economic losses caused by legal compensation or fines. Therefore, it will bring certain losses to the sales and goodwill of the enterprise.

3.2 Technical Aspects

With the rising labor cost and the increasing demand for operation efficiency, the pace of technological innovation is accelerating, and the field of research and application are also

being focused. In order to seize the innovation dividend of the industry, major express companies are sparing no effort to build intelligent logistics. Almost money burning innovation investment has increased the R & D expenditure of enterprises. Besides, huge R & D investment has reduced the gross profit margin of products and services and the net profit of the enterprise in the financial statements. Other express companies, such as YTO, have invested 400 million in R&D, and STO will continue to increase its investment and development in the direction of digitization.

Enterprises have obvious intention to improve their scientific and technological ability to cope with the increasingly fierce market competition. Each company has its own emphasis on innovation and technology, which imposes higher scientific and technological pressure on SF, and SF meets a higher challenge to improve its core competitiveness through technological innovation, unless SF's innovation and technology are obviously more advanced than other enterprises in the same industry. However, at the same time, SF must continue to increase investment in human, material and financial resources for scientific and technological innovation, which will bring great challenges and risks to the finance statements.

3.3 Industry Environment

Although the business volume of the express industry is growing, the competition in the industry is becoming more and more intense, and the processes of industry integration and merger are accelerating. The advantages of leading enterprises continue to expand, and new subjects and models start to emerge in recent years. The continuous price war constantly raises the scale barrier of the industry and the level line of standardized services. Due to the widening scale gap between the second tier enterprises and the leading enterprises, the scale effect is obviously weaker than that of the leading enterprises, which makes it difficult for their cost line to keep up with the reduction speed of the industry price line, resulting in performance losses, and their service timeliness can not compete with the leading enterprises. Many enterprises have withdrawn from industry competition. The specific performances obtain two aspects: the first-line express enterprises compete with each other. SF expands the flow with special preference and JD vigorously develops the third-party logistics; the second and third tier express companies such as Guotong, Quanfeng and Rufengda are impacted and successively eliminated in the fierce market competition. Due to the influence of the parent company Youhe daotong, Suer was on the verge of life and death. Uspeed was acquired by one meter Tik-tok under the promotion of capital, and pinjun express under vipshop terminated its business. The exit of second and third tier enterprises has become a foregone conclusion, and the competition among leading enterprises is more intense (Fig. 1).

In 2019, the market share of the head express enterprises further increased, reaching 82.5%, a year-on-year increase of 1.3%. Compared with the second and third tier enterprises, head express enterprises are more likely to obtain high-quality resources. They continued to improve market share and realize expansion and integration. Also, these companies build cost advantages with scale effect, and the stronger the "Matthew effect" is more prominent.

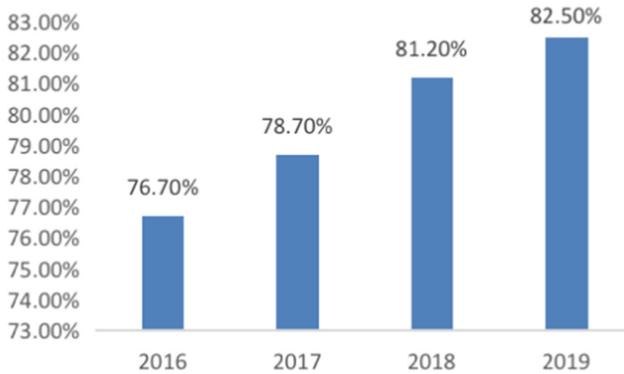


Fig. 1. Market share of head express enterprises

3.4 Own Business Environment

According to the situation, the scale of business transportation is difficult to break through. SF currently ranks first in aviation logistics, but it has not made enough progress in the construction of land transportation logistics system. SF transportation infrastructure suppliers have strong bargaining power. The transportation cost of SF company depends heavily on the adjustment of suppliers. In the industry, all express delivery providers have expanded their storage and transportation equipment. Also, the obvious increases have been found in administrative expenses. In 2019, the investment in warehousing and logistics infrastructure in the express industry increased, and the management expenses on warehousing and logistics increased by 6.2% in 2019. In addition, the fluctuation of oil price also has a great impact on the cost of SF Express. Operating profit is difficult to break through the ceiling of the industry. Failure of diversification strategy and loss of e-commerce business. At present, the express delivery industry is in a period of continuous transformation and upgrading, and the connotation and extension of industrial development are constantly changing. However, among the opportunities of change, risks do exist. In 2013, SF has carried out a diversified development strategy. Afterwards, SF started to launch “Heke” in 2014. Due to the lack of price, brand and other advantages in its online sales, and the lack of shopping experience and real-time consumption advantages in offline retail, the cross-border operation of SF Express encountered a Waterloo like failure, resulting in a reduction in the level of income increase and a drag on the growth of profits. Since then, SF began to “SF Preferred”, but because of the fundamental reasons, it is also faces the experience of Heke. Moreover, the number of complaints of “SF Preferred” has been growing, which has also had a great impact on the brand. In addition, the cross-border operation of SF has diluted its core competitiveness to a certain extent. The increase of labor cost. The express industry relies heavily on the input of human resources at the grass-roots end. With the growth of the age of China’s labor force, the proportion of young labor force decreases rapidly. The demand for young labor in the express industry continues to rise, resulting in a sharp rise in labor costs (Fig. 2).

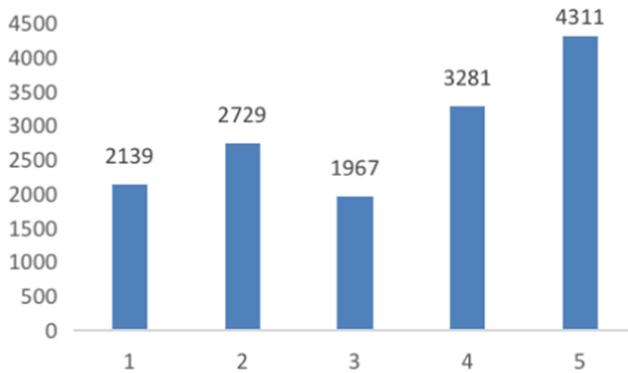


Fig. 2. Employee compensation payable

In addition, with the rapid development of takeout industry, SF has encountered the dilemma of brain drain in the competition of young human resources. At the same time, due to loose management and high personnel mobility, SF Express has frequent events of dishonesty and customers, which has greatly affected the reputation of SF express enterprises. Due to the influence of salary, commission and other factors, many delivery workers turn to the takeout and fresh food industry and become takeout workers. In this filed, SF Express has increased the input of human cost year by year, which has a certain impact on the company's profit and cash flow.

4 Conclusions and Suggestions

Reasonable internal control of enterprises is an inevitable product of economic development, which involves all aspects of enterprise management. In order to achieve the purpose of good operation and long-term development of the enterprise, SF Express should formulate positive risk response measures. Therefore, this paper proposes the following suggestions.

Firstly, SF should actively respond to and handle complaints. At present, SF has issued internal claims regulations on lost parts, which is a positive response to the lost parts problem. In this way, the problem of losing was put on the table, and claim settlement has become a very standardized normal business. Furthermore, the satisfaction of SF Express has been at the leading level in the industry. According to the statistics of the State Post Office in 2020, SF Express's overall satisfaction ranks first in the industry. And, steadily promote diversified express business. No matter from the strategic layout and business framework of the enterprise, or from the successful experience of international express giants, diversified development is the only way for express enterprises to become bigger and stronger. SF has been involved in the field of cold chain transportation, mainly including the cold chain transportation of fresh agricultural products and drugs. For fresh agricultural products, SF mainly provides express delivery services, and the upstream of this business is e-commerce enterprises. SF optimization is the first step of SF towards e-commerce. Also, SF should seize the development opportunities of "Internet plus big data" and identify the entry point of e-commerce. SF should fully

explore and process, deeply analyze users' consumption habits and preferences, and apply the analysis and research results to its e-commerce business, which can greatly improve the promotion accuracy and reduce the promotion cost. Besides, recruit talents and improve the professional quality of enterprise employees. On the one hand, SF should take many measures at the same time and timely launch preferential policies such as rental subsidies, talent apartments and resettlement fees to attract high-quality professionals to join. On the other hand, it's helpful to establish and improve the training mechanism and increase the opportunities for continuing education and skill training, which can improve the skills of employees by organizing internal training of managers, learning and observing relevant professional knowledge in colleges and universities or logistics benchmark enterprises, so as to provide effective talent guarantee for the long-term development of enterprises. Finally, according to SWOT analysis, SF is recommended to adopt other companies' strategy. For advantages, it's recommended to make use of its own brand advantages, build the reputation of "SF Express", match SF Express with SF Preferred quality, improve SF Preferred product structure and cherish the flow attracted by SF Express. At the same time, it is supposed to accelerate the transformation of SF Express products to adapt to market changes. For threats: seek "differentiation" of their own advantages in the expansion of "diversification". SF's e-commerce expansion has a long way to go.

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