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Financial Performance Analysis of Companies under Light Asset Operation Mode: Taking Hongdou Clothing as an Example

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Abstract

This article mainly takes Hongdou Clothing Co., Ltd. as an example to analyze its financial performance under the light asset mode using ratio analysis method. It studies the problems in the financial performance of Hongdou Clothing under the light asset operation mode and proposes corresponding optimization measures. I hope that through the research in this paper, it can provide assistance to Hongdou Clothing Company in strengthening asset operation management and provide reference for similar enterprises to transform into a light asset model.

Keywords

Light assets; Operation mode; Hongdou clothing; Ratio analysis method.

1. Introduction

In recent years, with the rapid growth of China's economic strength and the continuous improvement of the national income level, consumers have paid more attention to the diversified needs of personalized and branded products, which has led to further segmentation of the clothing market. The traditional operating model of the clothing industry is facing enormous challenges. In the face of fierce market competition, clothing enterprises are adapting to the development of the times. By combining their own development advantages, adopting measures such as reducing costs and improving processes, the operation mode centered on light assets is increasingly favored by more and more enterprises.

In the 1980s, Nike was the first to implement a light asset operation model by outsourcing its manufacturing business to companies with cheap labor. The company focused on brand management, thereby reducing production costs and significantly improving financial performance, sparking a wave of light asset operations. Many large companies have followed suit, such as Apple, Facebook, Coca Cola in the United States, Gree in China's home appliance industry, and Wanda in the real estate industry, all of which have significantly improved their financial performance by transitioning to light asset operations. It can be seen that the asset light operation mode is more in line with the characteristics of the Internet era and has broad prospects for development.

Hongdou Clothing is one of the early companies to implement a light asset operation model and achieve success. This article takes Hongdou Clothing Company as the research object, analyzes the financial performance of the enterprise under the light asset model, and provides certain reference and guidance for other enterprises to carry out light asset operations.

2. Related concepts

2.1. Light asset operation mode

Asset light, also known as the light asset operation model, is a value driven capital strategy that refers to enterprises outsourcing non core businesses while focusing on their core business. Light assets were first proposed by McKinsey&Company and are an important component of a

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company's production and business activities. Light assets belong to intangible assets. Compared to heavy assets that consume a large amount of capital, intangible assets such as experience, standardized process management, governance system, brand, human resources, and corporate culture occupy less capital. They mainly obtain larger profit returns through less capital, achieving the goal of maximizing profits.

2.2. Definition of Financial Performance

Financial performance refers to the quantitative performance of the economic results achieved by an enterprise through its business activities during a certain period of time, mainly including key indicators such as profitability, debt paying ability, and operational efficiency. It can comprehensively express the achievements of enterprises in cost control, including the effectiveness of asset utilization management, the effectiveness of fund source allocation, and the return on equity of shareholders. It can help enterprises avoid risks in the production and operation process, and assist them in making strategic decisions at the macro level.

This article mainly adopts the ratio analysis method. By calculating the ratio of relevant indicators in the financial statements of the enterprise, analyzing the financial situation of the enterprise, we can better understand the current operating status of the enterprise and predict its development prospects.

3. Analysis of Financial Performance Status of Hongdou Clothing under Light Asset Operation Mode

3.1. Basic Overview of Hongdou Co., Ltd

Jiangsu Hongdou Group was founded in 1957 and currently has nearly 30000 employees. The group has more than ten subsidiaries with businesses covering three industries: clothing, tires, and pharmaceuticals. Hongdou Group is an important subsidiary of Hongdou Group, specializing in the production and sales of men's clothing. Men's clothing products include shirts, suits, trousers, jackets, T-shirts, sweaters, etc. The "Hongdou" trademark has been recognized as a "China Famous Trademark" by the State Administration for Market Regulation. Hongdou shirts and suits have been successively recommended as Chinese famous brand products and have been awarded the title of "National Inspection Exempted Products". In recent years, the company has focused on brand operation and clothing manufacturing, forming two major businesses, namely, full range retail of Hongdou men's clothing and customization of Hongdou professional clothing. Hongdou Men's Clothing Full range Retail Business, with the brand positioning of "Classic and Comfortable Men's Clothing". The offline sales channels of global retail are mainly in second - and third tier cities across the country, while relying on digital store construction to enhance user interaction experience; As of the end of March 2024, Hongdou Group has a total of 481 directly operated stores and 521 franchise stores. Online sales are directly operated by the company, and are mainly settled on third-party mainstream e-commerce open platforms such as Tmall, JD, Tiktok, etc. The company gathers offline stores and various e-commerce platforms to create diverse consumption scenarios, closely grasping the activity rhythm of each platform to leverage public and private traffic, focusing on insight into the planting and conversion of people from the perspective of products, and meeting the needs of various consumer groups with high-value and differentiated products. Hongdou Professional Clothing Customization Business mainly provides customized high-end professional clothing and personalized light customization services for customers, covering a wide range of industries. Since 2014, Hongdou Group has gradually shifted towards a profit model of light asset operation.

ISSN: 2710-0170

3.2. Operation status of light asset model in Hongdou Clothing

3.2.1. Focus on product research and development

Product research and development is of paramount importance in the production and operation process of light asset enterprises. Enterprises increase their R&D investment to form better product competitive advantages and gain a favorable position in the market. Therefore, when implementing a light asset operation model, most enterprises will increase their R&D investment and allocate more enterprise resources to product development. Since the implementation of the light asset operation model in 2014, the research and development expenses of Hongdou Clothing have remained relatively high. The company selects high-quality comfort materials from around the world and has made technological progress in the research and development of comfort products. At the same time, the company also holds 9 patents to support the new domestic product "black technology". In January 2023, Red Bean Apparel, with the assistance of technology, created healthy and comfortable clothing and launched a new type of antiviral fabric comfortable clothing. It can be foreseen that Hongdou Clothing will continuously enhance its research and development investment, improve its research and development advantages, and achieve significant results through the light asset operation model.

3.2.2. Strengthen brand building

Brand is an important indicator of a company's competitiveness. For enterprises adopting a light asset operation model, good brand competitiveness is a booster for them to explore the market. Enterprises invest a large amount of manpower, material resources, and financial resources to develop their own brands, find value chain links with high added value, form product premiums, and bring huge benefits to the enterprise.

Over the course of 68 years, Hongdou Clothing has relied on its own and market demand, accurately positioned itself, and focused on the men's clothing market. With the production and management philosophy of "classic and comfortable men's clothing," it continues to create high-quality brands. In order to strengthen brand building and enhance brand influence, the company has selected brand spokespersons and planned brand events such as "New Product AR Launch", "Qi Wei endorses men's clothing", "Luo Yonghao only needs this black shirt", "London Fashion Show in the UK", "International Supermodel Kim Dae jung's Twin City Performance", relying on the precise transmission of big data to continuously ignite the market and enhance brand awareness.

3.3. Financial Characteristics Analysis of Hongdou Clothing under the Light Asset Operation Model

3.3.1. Decrease in the proportion of fixed assets

A low proportion of fixed assets can prevent funds from being consumed in large quantities, thereby improving the liquidity of funds. Therefore, the investment of enterprises in fixed assets such as factories and equipment has decreased. According to Table 2-1, the proportion of fixed assets of Hongdou Clothing showed a downward trend from 2014 to 2016. In 2017, the proportion of fixed assets to total assets increased sharply, mainly due to the sale of real estate business, resulting in a significant reduction in the total asset size. Due to the construction of the intelligent supply chain system by Hongdou Clothing in 2018, the proportion of fixed assets has increased. In 2019, the fixed asset value of Hongdou Clothing increased mainly due to the parent company transferring the Yujiatang storage project to fixed assets, resulting in an increase in its proportion in that year. However, from 2020 to 2022, the proportion of fixed assets gradually decreased. Overall, from 2014 to 2022, the proportion of fixed assets to total assets of Hongdou Clothing is still relatively low, which is in line with the characteristics of fixed assets under the light asset operation mode.

ISSN: 2710-0170

Table 2-1 Fixed Assets of Hongdou Clothing from 2014 to 2022(Unit: 100 million yuan)

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Fixed assets	4. 12	4.34	4.21	4.06	4.11	5.87	4.39	4.31	4.26
Total assets	57.89	67.55	98.43	54.49	54.83	54.93	46.65	48.92	47.37
Proportion of fixed assets (%)	7. 12	6.43	4.28	7.44	7.5	10.69	9.41	8.81	8.99

Data source: Hongdou Stock Annual Report 2014-2022

3.3.2. High proportion of monetary funds

The monetary fund situation of Hongdou Clothing from 2014 to 2022 is shown in Table 2-2:

Table 2-2 Proportion of Monetary Funds in Hongdou Clothing from 2014 to 2022(Unit: 100 million yuan)

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Monetary funds	1.44	7.86	14.85	14.61	9.79	11.19	10.39	9.97	9.13
Total assets	57.89	67.55	98.43	54.49	54.83	53.93	46.65	48.92	47.37
Proportion of monetary funds (%)	2.48	11.64	15.09	24.8	17.86	20.37	22.27	20.38	19.27

Data source:Hongdou Stock Annual Report 2014-2022

Monetary funds mainly include cash on hand, bank deposits, and other monetary funds. Enterprises need to have sufficient funds to withstand operational risks. According to Table 2-2, from 2014 to 2017, the proportion of monetary funds in Hongdou Clothing increased rapidly, from 2.48% to 17.86%. Since adopting a light asset operation model in 2014, monetary funds have grown from 144 million to 913 million, an increase of 534.03%. From this, it can be seen that its capital reserves are relatively high, which is in line with the characteristics of large cash reserves under the light asset operation mode.

4. Financial Performance Evaluation of Hongdou Clothing under Financial Ratio Method

Hongdou Clothing focuses on brand research and development, strengthening brand research and development activities, which can bring a series of benefits to the development of enterprises and have a certain impact on financial performance. Therefore, when analyzing the financial performance of enterprises from 2013 to 2022, this chapter focuses on studying their profitability, operational capability, and development capability before and after using the light asset operation model, making the effect of their light asset operation model more prominent.

4.1. Profitability analysis

The problem with profitability is that from 2013 to 2015, the operating profit of Hongdou Clothing fluctuated around 3%; The total asset net profit and sales net profit grew slowly before 2017, with little overall change. Especially in recent years, the decline year by year indicates that Hongdou Clothing has not used funds reasonably, resulting in cost and expense problems, which affect the profitability of the enterprise.

According to Table 3-1, after adopting the light asset operation mode, its operating profit significantly increased from 4.38% to 29.01% from 2015 to 2017, an increase of approximately 7 times. During this period, the sale of equity in its controlling subsidiary, Red Bean Real Estate, resulted in a significant increase in operating profit. For net profit, the growth rate was rapid from 2015 to 2017. Especially in 2017, due to the impact of the sale of Hongdou Real Estate business by the company, the net profit was relatively high. Overall, since Red Bean Clothing adopted a light asset operation model, its income level has significantly improved.

ISSN: 2710-0170

From the perspective of total asset net profit margin, it showed an upward trend from 2013 to 2017, reaching 7.99% in 2017, an increase of 11.5 times compared to 2013. From this, it can be concluded that the implementation of the light asset operation model has had a positive impact on enterprises by increasing the net profit margin of total assets.

Table 3-1 Summary of Profitability of Hongdou Clothing from 2013 to 2022

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating profit margin (%)	2.16	3.29	4.38	6.72	29.01	10.41	8.21	8.95	4.56	0.86
Sales net profit margin (%)	1.83	2.59	3.16	5.8	22.45	8.38	6.78	7.32	3.41	0.69
Net profit on total assets (%)	0.64	1.15	1.34	2. 12	7.99	3.8	3. 14	3.44	1.67	0.34

Data source: Annual Report of Hongdou Stock from 2013 to 2022

4.2. Operational Capability Analysis

There are issues with operational capability, with fluctuations of around 0.5 in current asset turnover and inventory turnover from 2013 to 2016, and low turnover times, indicating that the company is facing serious inventory backlog problems. For accounts receivable turnover, the gradual increase in collection periods from 2013 to 2017 indicates an increase in bad debt losses and slow asset flow.

According to Table 3-2, the real estate business of Hongdou Group in 2017 resulted in a high book value of its inventory and a low current turnover rate. However, after 2018, the value significantly increased, especially by 2022, reaching 1.28, a two-fold increase from 2013. From this, it can be concluded that under the light asset operation mode, the turnover rate of current assets increases rapidly, improving the utilization efficiency of company assets.

From the perspective of inventory turnover, it increased rapidly from 2018 to 2011, reaching 11.6, a 26 fold increase compared to 2013. This indicates that after adopting the light asset operation model in 2014, inventory management has been significantly improved.

After 2014, the accounts receivable turnover rate data significantly increased, reaching a peak of 17.17 in 2016, which is three times higher than in 2013. From this, it can be seen that the company's accounts receivable liquidity has improved.

Table 3-2 Summary of Operating Capacity of Hongdou Clothing from 2013 to 2022

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current asset turnover rate (%)	0.44	0.57	0.58	0.5	0.53	0.91	1.02	1.15	1.32	1.28
Inventory turnover rate (%)	0.43	0.54	0.55	0.58	0.85	7.05	7.32	10.26	13.57	11.6
Accounts receivable turnover rate (%)	5.51	8.42	12.64	17.17	16.58	9.32	7.13	6.58	5.13	4.03

Data source: Annual Report of Hongdou Stock from 2013 to 2022

4.3. Development Capability Analysis

The problem of development capability lies in the significant volatility of net asset growth rate and net profit growth rate in recent years, especially the sharp decline after 2017, indicating a significant instability in its development capability.

According to Table 3-3, it can be seen that growth began from 2014 to 2016, especially in 2015 and 2016. Mainly due to the increase in owner's equity caused by the conversion of capital reserves into share capital. Subsequently, due to factors such as the sale of real estate business and stock repurchases, total assets decreased and the growth rate of net assets began to decline.

ISSN: 2710-0170

From the perspective of net profit growth rate, the net profit growth rate of Hongdou Clothing has fluctuated greatly, basically negative from 2018 to 2021, mainly due to the company's expansion of offline sales channels, consumption of funds, and sale of real estate business. But the positive value in 2022 indicates that net profit is growing.

Overall, compared to not introducing a light asset operation model, the company's development is still moving towards a positive trend.

Table 3-3 Summary of Development Capacity of Hongdou Clothing from 2013 to 2022

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net asset growth rate (%)	1.44	3.38	46.4	75.77	2.91	-12	2.21	-9.28	-13.35	-6.34
Net profit growth rate (%)	98.6	67.5	20.93	98.3	245.7	-65.88	-17.22	1.34	-54.26	5.6

Data source: Annual Report of Hongdou Stock from 2013 to 2022

5. Suggestions for optimizing financial performance under the light asset operation mode of Hongdou Clothing

Through the analysis of the financial performance of Hongdou Clothing under the light asset operation mode in the previous text, it is found that there are still certain deficiencies. In response to the problems that have arisen, optimization suggestions are proposed to help enterprises more freely apply this mode and better improve their efficiency.

5.1. Reasonably allocate funds and avoid resource waste

Given that Hongdou has implemented a light asset operation model, it will inevitably have a huge cash reserve, which will inevitably reduce the efficiency of fund utilization. Therefore, Red Bean Clothing should make the idle funds flow as much as possible to obtain greater benefits. Red bean clothing can improve the efficiency of capital utilization from the following aspects. Firstly, continue to increase investment in research and development, and design fashionable items with higher technology and multiple functions. Cultivate innovative talents, strengthen R&D teams, and enhance innovation capabilities. At the same time, improving the welfare benefits of R&D personnel and stimulating employees' enthusiasm. Secondly, by investing a portion of the funds in financial management, additional returns can be obtained. In addition, it is possible to acquire or invest in high-quality companies to expand the company's development scope and activity areas, which is not only beneficial for the company's long-term development, but also for the company to gain a larger market share.

5.2. Improve inventory management and increase capital turnover

According to the characteristics of the operating model of Hongdou Group, its inventory mainly includes inventory goods in the warehouse and sales products, which results in a large number of inventory goods and thus consumes huge management expenses. According to the 2022 annual report, the ending inventory of Hongdou was 152.4531 million yuan compared to the beginning of the period, an increase of 34.04% year-on-year; The inventory turnover days are approximately 31 days, a decrease of 3 days from the previous period. An increase in the company's inventory quantity and longer turnover days will affect inventory management and consume a large amount of cash.

In order to improve inventory management and increase capital turnover, Red Bean Clothing can adopt the following measures. On the one hand, the company needs to solve the problem from the root, try to produce according to orders and flexibly, and maintain a balance between supply and demand. Therefore, enterprises should build a sound information system, broaden channels for obtaining information, fully utilize big data to accurately capture consumers'

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preferences and needs, understand market dynamics, produce according to demand ratios, and achieve the goal of zero inventory management. If the production volume cannot be controlled, it is necessary to promptly deal with the backlog of inventory in order to reduce the cost of inventory management. For example, discount promotions and charitable donations. This not only helps to increase the company's visibility, but also enhances its image. On the other hand, increasing the number and management of physical stores. For the rectification and adjustment of stores with poor geographical location or service, strengthen the training of employees' overall quality, and improve service quality. While increasing sales, it can also alleviate the problem of inventory accumulation.

5.3. Expand financing channels and promote long-term development

The financing methods of Hongdou Shares are mainly bond financing and equity financing, which are relatively single and will increase the proportion of interest free liabilities of the enterprise. Therefore, it is extremely important for enterprises to broaden their financing channels. Diversified financing channels are conducive to reducing the operational risks of enterprises, alleviating the pressure caused by financing, and promoting the long-term development of enterprises.

Firstly, companies can consider internal financing by using employee stock ownership as their source of internal financing. Compared with external personnel, internal employees have a better understanding of the company's business philosophy and actual situation, which enhances their shareholding ratio, especially for core employees or technical personnel, and contributes to mutual benefit between the company and its employees. Because of this, not only can it enhance the cohesion of employees and stimulate their work enthusiasm, but it can also provide more financial support for the enterprise, helping to promote healthy development in the future.

Secondly, companies can adopt a combination of low dividends and additional dividends. Due to the constantly changing and uncontrollable market environment and national policies, paying dividends according to traditional fixed dividend policies will inevitably increase the financial pressure on enterprises and affect the speed of capital circulation. By combining low dividends with additional dividends, the cost of corporate financing can be reduced. Meanwhile, more investors can be attracted by issuing additional dividends.

6. Conclusion

Based on the theories of light asset operation mode and financial performance, this article selects Hongdou Co., Ltd. as the research object, analyzes its financial data from 2013 to 2022, and elaborates on the implementation of its light asset operation mode from three aspects: profitability, operational capability, and development capability, as well as the financial performance under this mode, in order to gain some insights. The following conclusion can be drawn from this:

Firstly, the light asset operation model is beneficial for enterprises to build their core businesses. Under the light asset operation mode, Hongdou Clothing has formed its own branding advantage. Connect differentiated products with comfort value and strengthen the consumer awareness of "Hongdou Men's Wear=Comfortable Men's Wear". The company collaborates with high-end suppliers in the industry to research and upgrade fabrics, processes, board shapes, etc., creating the Austrian Lanjing TENCEL ™ Hot selling products such as Modal fiber, blended functional fibers from China and Austria, and 3D cutting. At the same time, many celebrity stars and many street auction grass planting stars are used to create star pieces. With the help of popular social media platforms such as Tiktok, Xiaohongshu, and Weibo, consumers can quickly form recognition and enhance the brand's communication effect.

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Secondly, the light asset operation model has a positive impact on enterprises. Since adopting a light asset operation model in 2014, Hongdou Clothing has significantly optimized its financial performance, and the company's various capabilities have improved. Although there have been some fluctuations, they are all within a reasonable range. In terms of profitability, the improvement of profitability has accelerated the development of Red Bean Group's men's clothing, leading to new growth points in economic profits; In terms of operations, inventory management optimization and high turnover rate of current assets; In terms of development, although the company's net profit growth is lacking, the overall impact is not significant, and shareholder rights are protected, which is beneficial for the company's development.

Thirdly, overall, adopting a light asset operation model is beneficial for the development of the clothing industry. However, relevant enterprises still need to adopt a light asset operation mode suitable for their own development based on their actual business situation. When applying this model, one should adhere to their own development advantages and enhance brand awareness. At the same time, we need to increase investment in research and development innovation, create unique competitive advantages, enhance brand awareness, and occupy a favorable position in segmented markets. Of course, enterprises should also keep up with the times, make full use of big data, establish a sound management system and operational mechanism, enhance brand competitiveness, and achieve sustainable development.

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