Financial Strategy Based on Harvard Analytical Framework - a Case Study of Haier

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Abstract- Nowadays, smart home and IoT have been the trend of the home appliance industry. Taking Haier, the representative of Chinese household appliance enterprises, as an example, this paper USES the Harvard Analysis Framework to interpret the company's financial statements in recent years through accounting analysis. Finally, explain the reason for the change of the company's name and put forward optimization suggestions combined with the prospect.

Keywords- Harvard Analytical Framework, Haier Zhijia, Smart Home, Financial Analysis.

I. INTRODUCTION

The Harvard analytical framework originated in the United States. It is a financial analytical framework proposed by three Harvard scholars. The framework includes four parts: strategic analysis, accounting analysis, financial analysis and prospect analysis. It fully pays attention to the influencing factors behind the financial statement data, and better analyzes the operating status of the enterprise, so as to provide information support for decision-making. With the advent of 5G era, the Internet of things is driving the accelerated development of all interactive interfaces and intelligent terminals, and more and more traditional home appliance enterprises are transforming into smart homes. Haier group was founded in 1984 in Qingdao, Shandong Province, and listed on the Shanghai stock exchange in 1993. It has been ranked the world's top home appliance brand by euro monitor international for 11 consecutive years. However, on June 5, 2019, Haier group said that in order to better reflect the company's global development and promote the implementation of the company's IoT smart family ecological brand strategy, the full name of the company was changed from “Qingdao Haier Co., LTD” to “Haier Zhijia Co., LTD”. The company's stock abbreviation also changed from “Qingdao Haier” to “Haier Zhijia” (600690) on July 1, 2019. This indicates that Haier complies with the consumer trend and is marching into the field of intelligent family. This paper will introduce the Harvard Analysis Framework, start from the financial statements of Haier Zhijia from 2016 to 2018, analyze financial data, and provide some suggestions for the future development of the enterprise.

II. STRATEGIC ANALYSIS

Strategic analysis is the foundation of Harvard Analytical Framework. It analyzes the overall development strategy of an enterprise through the macro industry background and the micro strategic positioning of the enterprise.

A. Industry Analysis

In recent years, China's household appliances market tends to saturation, product homogeneity is serious, home point industry A - share capital market in the long - term low hovering. Among them, high-end consumption is rising rapidly. The growth rate of high-priced products in offline channels is consistently higher than that of low-priced products, and the industry share continues to concentrate on leading brands with higher prices. In recent years, air conditioners, refrigerators, washing machines and water heaters have shown an obvious high-end consumption trend. In recent years, China's household appliances market tends to saturation, product homogeneity is serious, home point industry A - share capital market in the long - term low hovering. Among them, high-end consumption is developing rapidly. The growth rate of medium-high price products is consistently better than that of low-price products, and the industry share continues to concentrate on leading brands with higher prices. In recent years, air conditioners, refrigerators, washing machines and water heaters have shown an obvious high-end consumption trend. Although the economic development continues to push up the income level and the cost-effective consumption demand expands, considering the increase of urban living costs, the budget constraints faced by price-sensitive groups are still strong. It can be said that due to the development of technical level, the current whole household appliance industry is in the stage of industrial transformation. The home appliance enterprise already from the item product, the channel, the marketing and so on ability competition, turns the multi-dimensional comprehensive strength competition. Accordingly, home appliance enterprise adjusts strategy in

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succession, a lot of enterprises also changed his company name, extend to more domains.

B. Strategic Positioning

Since its establishment in 1984, Haier Group has gone through five stages: the stage of brand strategy development, the stage of diversification strategy development, the stage of internationalization strategy development, the stage of global brand strategy development, and the stage of network strategy development. In December 2019, Haier Group entered the sixth stage of network strategic development, aiming to create a leading eco-brand of Internet of things. Firstly, based enterprise in the Internet era. On February 27, 2018, Haier announced at the conference that it had become the first national industrial Internet demonstration platform in China, promoting the terminal implementation of "5+7+N" all-scene smart family solution. Secondly, continue to explore the win-win model of "integration of people and orders". "People" mean employees, and "orders" mean the market target. This slogan means to let employees create value for users while reflecting their own value. Moreover, the realization product transfers from the low end to the high end. Haier's research and development and investment in the field of smart home has also been leading the industry, which shows that Haier is increasing the construction of high-end brand, hoping to occupy the high-end market. Finally, implement network strategy. With the personalized needs of users as the center, the enterprise will be transformed from mass manufacturing to mass customization to build the core competitiveness of intelligent manufacturing. Haier has upgraded its business from home appliances to complete sets of home appliances, smart homes and then to full ecological services. Haier's goal is to create a full-scene intelligent life experience, meet the needs of users to customize a better life, and create a smart family ecological brand. Moreover, Haier mall will continue to maintain good cooperation with e-commerce enterprises such as jd.com and T-mall, expand the scale of online flagship stores, and promote the transformation of offline 020.

III. ACCOUNTING ANALYSIS

From 2016 to 2018, Haier's total assets increased from 131.5 billion Yuan to 167.6 billion Yuan, its monetary capital increased from 23.58 billion Yuan to 38.16 billion Yuan, and its total inventory increased from 15.28 billion Yuan to 22.4 billion Yuan, all in a state of steady growth. The monetary fund accounts for the largest proportion of the total assets, from 17.9% to 22.7%. On the one hand, it indicates that Haier group has a good debt paying and asset liquidity ability, on the other hand, it also indicates that the capital of the enterprise is idle, and the single business industry leads to low utilization efficiency. The increase in the share of inventory in total assets is due to the fact that Haier is developing high-end products, which leads to the increase in inventory value. In addition, Haier's operating revenue also increased from 119.1 billion Yuan to 183.3 billion Yuan, a year-on-year growth of 112% in 2018. Although net profit increased from 6.696 billion Yuan to 9.771 billion Yuan, its share of operating income slightly decreased from 5.62% to 5.33%, indicating that the company is expanding gradually as it further increases input costs.

IV. FINANCIAL ANALYSIS

Based on the financial report data of Haier from 2016 to 2018, the financial status and operating performance of Haier Zhijia are analyzed from the perspectives of solvency, profitability, operation ability and development ability.

A. Solvency Analysis

Short-term solvency: current ratio and quick ratio reflect the short-term solvency of enterprises. When the current ratio is 2 and the quick ratio is 1, the enterprise's short-term solvency is the best. It can be seen from table 1 that the current ratio and quick ratio of Haier Zhijia in the three years are both in an increasing state. In 2018, the quick ratio of Haier Zhijia was close to 1, indicating that the company's short-term solvency was strong.

Long-term solvency: the asset-liability ratio and equity multiplier are mainly selected to reflect the long-term solvency of enterprises. It can be seen from table 1 that the asset-liability ratio of Haier Zhijia is in a downward trend, and the equity multiplier reflecting the size of financial leverage is also decreasing. This is due to the continuous decrease in corporate borrowing, indicating that Haier's long-term solvency is also continuously enhanced. In general, Haier's solvency is strong.

B. Operational Capability Analysis

As can be seen from Table II, the turnover rate of Haier's receivables decreased from 27.8% in 2016 to 22.47% in 2018, which indicates that the recovery rate of Haier's receivables is slowing down. This is mainly affected by the company's change in sales methods, Haier through the change of customer credit policy to improve sales performance. Inventory turnover is on the rise, while total asset turnover is basically stable. This shows that Haier's inventory liquidity is strong, and is also related to Haier's implementation of the "0 inventory" target. Total asset utilization efficiency is also higher, the overall operating capacity is still at a high level.

C. Profitability Analysis

Although Haier's net profit increased from 6.696 billion Yuan to 9.771 billion Yuan, it can be seen from table 3 that Haier's net interest rate on sales and return on total assets slightly
decreased from 2016 to 2018. This indicates that the increase in the cost of sales is larger than the increase in the sales revenue, because the reason for the transition to the high-end market is that the price for profit is higher. In addition, the earnings per share of the enterprise is increased, which represents the profitability of the enterprise is relatively strong.

**D. Development Capability Analysis**

Haier's total revenue in 2016 was 119.1 billion Yuan, which increased rapidly to 163.4 billion Yuan in 2017 and 183.3 billion Yuan in 2018. As can be seen from table 4, although the operating revenue growth rate and the net profit growth rate first increased and then decreased, they kept growing all the time. This is because Haier has invested more capital in high-end market research and development, and is building smart families, resulting in a decrease in the growth rate of total assets. In general, Haier still has great development potential in the future.

**V. PROSPECT ANALYSIS**

**A. Prospects for Development**

With the rapid promotion of 5G, the new generation of network system with zero delay and low power consumption will contribute to the vigorous development of the Internet of things. Smart home is becoming a new trend in the Internet of things, and the home appliance industry has certain development potential in the future. In 2019, the 35th anniversary of Haier group's establishment, Haier Zhijia App has become a value interaction platform covering scene experience, interaction and iteration, where users can watch and experience scenes, make free appointment for design and customize ecological services. Up to now, Haier Zhijia has realized 200 + family main scenes, covering 4000 + models, and realized customized scenes of 10000 +, replacing product sales with scene sales. Haier has gone through five strategic development stages in advance and formally entered the network strategic stage, transforming from a traditional manufacturer of household appliances products to a platform for incubating makers for the whole society.

**B. Risk Prediction**

The investment cost in the high-end market of smart home is large, Haier may need to invest more capital in the future, and its profitability may decline slightly. In addition, China's home appliance industry also lacks of core technology and product innovation, which may lead to serious product homogeneity, thus leading to intensified competition in the industry.

**VI. CONCLUSIONS AND RECOMMENDATIONS**

This paper focuses on the strategy, statement and prospect of Haier Zhijia by using the Harvard Analysis Framework. It found that Haier enhanced its own advantages by differentiated products and services, with good financial indicators and considerable development prospects. From the present point of view, although Haier is the leading enterprise of domestic home appliances, also need to prevent blind expansion. Grasp the original advantages; balance the domestic and foreign market investment. Secondly, while maintaining its competitive advantages in the middle and high-end market, Haier should also increase its own brand construction and expand the low-end market appropriately. Finally, Haier should broaden its investment channels, improve the use efficiency of idle funds and increase corporate income.

**REFERENCES**


