

# *Research and Analysis of Tongrentang's Economic Environment and Financial Situation*

Jinhao Chen<sup>1,\*</sup>, Meitao Dou<sup>1</sup>, Haozhi Sun<sup>1</sup>, Chunmiao Jin<sup>1</sup>, Liangbin Liu<sup>1</sup>

<sup>1</sup>*Department of Finance and Economics, Shandong University of Science and Technology, Jinan, Shandong, 250031, China*  
2293813605@qq.com

*\*Corresponding author*

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**Abstract:** Increasingly Chinese people begin to pay attention to their health. The large population has brought a large demand market for the development of China's medical industry. This paper takes Tong Ren Tang as a case to conduct the financial analysis of Tong Ren Tang from four aspects of the company's debt paying ability, operation ability, profitability and development ability. Starting from the perspective of financial strategy, the research on the operation mode of Tong Ren Tang based on the existing theories has certain reference significance for promoting the rapid development of enterprises.

## **1. Introduction**

With the promulgation of "Opinions on Deepening the Reform of the Medical Security System" and "Guiding Opinions on Promoting New Coronary Pneumonia Epidemic Prevention and Control Devices to Develop "Internet +" Medical Insurance Services", local governments attach great importance to the development of the medical industry and give them policies and funds. support. With the advancement of science and technology and the development of social economy, the competition in the market and industry has become increasingly fierce [1-3]. In this environment, enterprises are more concerned about how to transform and ensure their profit growth. Due to the improvement of people's material living standards in recent years and the widespread spread of scientific and health concepts in China, increasingly people in China have begun to pay attention to their own health. The large population has brought large benefits to the development of China's medical industry[4]. This is both an opportunity and a challenge for the development of my country's medical industry[5].

This article selects Tong Ren Tang as the case object, based on the existing relevant theories, first uses PEST analysis method and Porter's five forces model to make a detailed analysis of the industry environment of Tong Ren Tang's current macro environment, and secondly, from the company's debt repayment the financial analysis of Tongrentang is carried out in four aspects: capability, operating capability, profitability and development capability[6]. From a comprehensive analysis point of view, as a leading enterprise in China's traditional medicine industry, Tongrentang has adopted a profit model of light asset operation, but its asset structure is not very Reasonable, in the long run, it will affect the market size of the enterprise, reduce the market share, and cause

Tongrentang to fall into a stalemate; and its operating ability is not good, and the slow turnover speed will affect the normal capital operation, resulting in a waste of funds, which is not conducive to the long-term development of the enterprise[7]; in the future, Tongrentang is necessary to increase publicity channels, appropriately increase sales expenses, control operating costs, speed up capital turnover, speed up asset turnover, and improve corporate profitability; in 2020, with the improvement of the epidemic situation and the company's efforts to expand the market, continue to explore online sales, subordinate retail Terminals continue to promote standardized management, as shown in Figure 1,strengthen internal management and control capabilities, enhance risk defense capabilities, and improve terminal service levels; the growth rate of operating profit continues to decline, the growth rate of revenue performance slows down, continues to be dragged down by subsidiaries, and the overall development capabilities of Tongrentang enterprises decline. On this basis, we use SWOT analysis method to conduct strategic analysis, so that Tong Ren Tang can expand its advantages and avoid disadvantages in the future development. Finally, according to the current development of Tongrentang, it puts forward reasonable planning suggestions from various aspects, and based on the above analysis, predicts the future financial situation of Tongrentang.



Figure 1: Sales model combining online and offline.

Therefore, this paper starts from the perspective of financial strategy and conducts research on the operation mode of Tongrentang on the basis of existing theories, which has certain reference significance for promoting the rapid development of enterprises.

## 2. Analysis of Economic Environment and Financial Situation

### 2.1. Macro Analysis - PEST Analysis

The most commonly used method to analyze the macro environment of an enterprise is PEST analysis, which includes four factors: political environment, economic environment, social environment, and technical environment.

#### 2.1.1. Political and Legal Environment

China holds a high great banner of socialism with Chinese characteristics, strives unremittingly to realize the Chinese dream of the great rejuvenation of the Chinese nation, and leads the Chinese people to get rid of poverty and become rich. Since the 19th National Congress of China, the development of the country has been booming and the people have lived and worked in peace and contentment. As an important industry related to the national economy and people's livelihood, the pharmaceutical industry has become a key area for the cultivation and development of strategic emerging industries in my country. The pharmaceutical industry is closely related to people's life, health, and quality of life. The Chinese government has always attached importance to the development of the pharmaceutical industry. In recent years, in order to promote the development

of the pharmaceutical industry, relevant state departments have formulated and issued a series of policies, including "Healthy China 2020 Development Strategy", "Pharmaceutical Industry "Twelfth Five-Year" Development Plan", "Guidance on Accelerating the Structural Adjustment of the Pharmaceutical Industry Opinion" etc. Figure 2 presents the current research status of the gradually developed medical field. These policies have played an important role in the development of my country's pharmaceutical industry under the background of new medical reform, encouraging the merger and reorganization of pharmaceutical distribution companies, encouraging the development of retail chains, and cultivating leading enterprises at the national and prefectural levels etc[8].

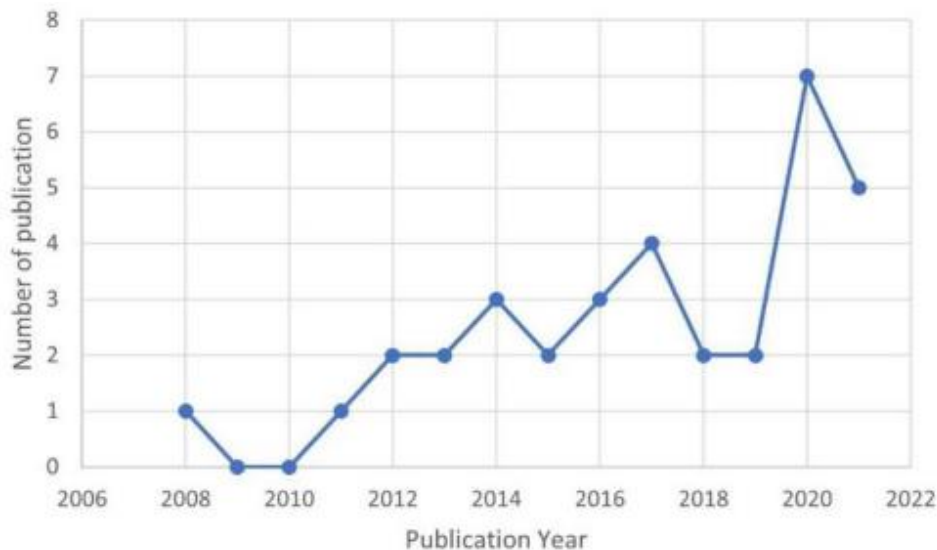


Figure 2: Current research trends in the field of medicine.

In addition, with the loosening of the national monetary policy and the implementation of relevant growth-enhancing policies such as credit guarantee funds for small and medium-sized enterprises, special funds for the development of small and medium-sized enterprises, and structural tax cuts, the fixed asset investment in the consumer goods industry will increase. Enterprises injected new vitality.

### 2.1.2. Economic Environment

Domestic: Growing GDP and disposable income of residents. China is in the critical period of economic system reform and industrial upgrading, with increasing economic burden, tight administrative regulation, diversified consumer demand, and intensified market competition. The downward risk of the domestic economy has increased, and the development of regions has been uneven, and the most difficult period for the development of medicine since the financial crisis has appeared. Although domestic demand grew steadily in the first half of 2020, in the face of many factors and the impact of the epidemic, the growth rate of industrial production of consumer goods dropped significantly, and the growth rate of exports fell sharply. Enterprises were affected by the epidemic and stopped production and production, resulting in increased losses. In the second half of 2020, they are also facing the problem of weak growth in domestic consumption demand; in 2020, China's total GDP will be 15.72 trillion US dollars, an increase of 2.3% year-on-year. With the increase of per capita GDP level, people's living standards will continue to improve, and residents' consumption structure will change[9]. It will be used for medical treatment spending will increase accordingly. The consumption proportion of medical care, transportation and communication, culture, entertainment, and education is rising rapidly, and the medical and health care industry will

have a very good prospect. At the same time, with the significant increase in the supply of bulk raw materials such as grain, oil, and cotton after entering the harvest period, the raw material, fuel, and power costs of consumer goods companies will decrease.

International: At present, the recovery prospects of the world economy are slightly sluggish, and the sluggish external demand has led to a decline in pharmaceutical exports. In addition, compared with the remarkable characteristics of high added value and high return rate of the world's pharmaceutical industry, the profitability of China's pharmaceutical industry has a certain gap compared with the world level. With the further integration of the world economy, China's pharmaceutical industry will be greatly impacted[10].

### **2.1.3. Social Environment**

According to the data forecast by the National Population and Family Planning Commission, by 2030, the total elderly population in my country will exceed 370 million. The problem of aging in China is prominent, and the rigid demand for medicine is large. As of the end of 2020, my country's elderly population has reached 254 million, accounting for 18% of the total population. Due to the chronic diseases and complications of the elderly population, the market demand for traditional Chinese medicine has increased significantly. As people pay increasingly attention to the quality of life, some health products will attract more attention. The number and structure of the population are the main factors in the composition of the demand for medicines. Coupled with the further improvement of people's living standards, the demand for medicines has increased. My country's traditional Chinese medicine industry has strong resource advantages and theoretical advantages.

However, the intellectual property protection of pharmaceuticals in my country is not optimistic. For decades, my country's pharmaceutical companies have been accustomed to imitating drugs from other countries. They lack motivation for innovation, have weak capabilities, and have weak legal awareness, especially weak awareness of trademarks, which seriously affects the trust, influence, and profitability of traditional Chinese medicine companies. For example: Wangzhihe trademark has been registered in Germany, and Tongrentang has already been registered by Japanese companies.

### **2.1.4. Technology Environment**

The pharmaceutical industry seems to be a low-end manufacturing industry, but with the entry into the 21st century, human innovation and development, the requirements for various products continue to increase, the pharmaceutical industry has also entered the era of high-end technology, the pharmaceutical industry continues to innovate, and there is a fierce competition in the high-tech pharmaceutical industry, especially the development of traditional Chinese medicine tablet processing technology. However, at present, most pharmaceutical enterprises in China are small in scale, large in number, duplicate products, and most of the manufacturers have low product technology content, low new drug research and development capabilities, and low management capabilities and economic benefits.

In order to ensure drug safety and establish a corporate brand, the State Food and Drug Administration (SFDA) is negotiating with the National Development and Reform Commission, the Ministry of Industry and Information Technology, and other ministries and commissions to promote enterprises to actively carry out the new version of drug GMP certification, which will help improve the quality management level of enterprises; At the same time, modern Chinese medicine has achieved quality control and production process control through the control of fingerprints. The scope of development of the pharmaceutical industry is diversified and multifield to meet the needs

of convenient and fast use; the type of product development is derived from the concept of superiority, and the derivative products of traditional Chinese medicine not only provide convenience for daily life, but also have broad market prospects.

## 2.2. Solvency Analysis

Debt solvency shows the effect of enterprises using their own assets to dispose of debts, and is an important indicator reflecting the ability of enterprises to repay debts and the operation of enterprises' financial capabilities. Since long-term solvency is linked to profitability, but short-term solvency is not directly proportional to profitability, we divide the solvency into long-term long-term solvency, and short-term solvency for analysis separately.

### 2.2.1. Short-Term Debt Paying Ability Analysis

Short-term solvency is the ability of an enterprise to repay current liabilities with current assets, which is the ability of an enterprise to pay due debts daily, and is an important indicator to measure the relative liquidity of current assets. Tongrentang's short-term debt capacity is shown in Table 1.

Table 1: 2017-2020 Tongrentang short-term solvency analysis table

Ratio/Year	2017	2018	2019	2020
current ratio	3.29	3.31	3.29	2.95
quick ratio	1.97	2.01	2.08	1.87
cash ratio	1.32	1.42	1.54	1.49
cash flow ratio	0.32	0.4	0.46	0.39

Data source: Calculated based on the data of Tong Ren Tang's 2017-2020 annual report.

### 2.2.2. Subtitle

The current ratio represents the ratio between current assets and current liabilities. The current ratios of Tongrentang in the third quarter of 2017-2020 were 3.29, 3.31, 3.29, and 2.70, respectively, all of which were higher than the empirical value of 2, which indicates that its asset liquidity is good and its short-term solvency is strong. At the same time, the study found that Tong Ren Tang's current assets accounted for a large proportion of monetary funds and inventories, which made the company's inventory turnover rate low. Excessive hoarding of inventories reduced the efficiency of capital use and affected the further profitability of the company.

The quick ratio reflects the ratio of quick assets to current liabilities. Quick assets are current assets minus unrealizable and unstable inventories, prepaid accounts, etc., including cash, accounts, receivable, and other assets that can be realized quickly. We usually think that a quick ratio of around 1:1 is more appropriate. In Table 1, the quick ratio of Tongrentang fluctuates around 2, which fully shows that Tongrentang has a strong solvency.

The cash ratio is the ratio of monetary funds and marketable securities to current liabilities. This ratio is greater than 1, indicating that Tong Ren Tang has strong liquidity. The working capital raised by the enterprise through debt has been fully utilized, and the cash ratio is generally on the rise, which is conducive to the effective use of enterprise funds and increases the opportunity for enterprises to make profits from investment.

The cash flow ratio is the ratio of net cash flow from operating activities to current liabilities. This ratio is mainly used to measure the degree to which the cash flow generated by the business operations of the enterprise can cover current liabilities. The higher the ratio, the better the financial flexibility. The cash flow ratio showed a steady upward trend from 2017 to 2019, and the 2020Q3

data may have declined slightly due to the impact of the epidemic, but the overall data is good, indicating that Tong Ren Tang has strong liquidity.

Based on the analysis of the above four short-term solvency indicators, Tongrentang's current liabilities are mostly composed of accounts payable and advance receipts, which are generated by occupying funds from upstream and downstream enterprises. As long as Tongrentang can ensure the normal operation of business activities, there is no need to worry about repaying debts. Even though some financial indicators have declined slightly due to the impact of the epidemic in 2020, all financial indicators of Tongrentang have tended to normal levels, with relatively strong liquidity of current assets and strong short-term debt repayment ability.

### 2.2.3. Long-Term Solvency Analysis

In addition to the short-term solvency, there is also long-term solvency to evaluate the solvency of the enterprise. The long-term liabilities of the enterprise are mainly used for long-term investment, and the interest and principal are repaid on the income generated from the investment. Long-term solvency refers to the ability of an enterprise to repay long-term debts. The stronger the long-term solvency, the stronger the company's financial ability to deal with risks, as shown in Figure 3.

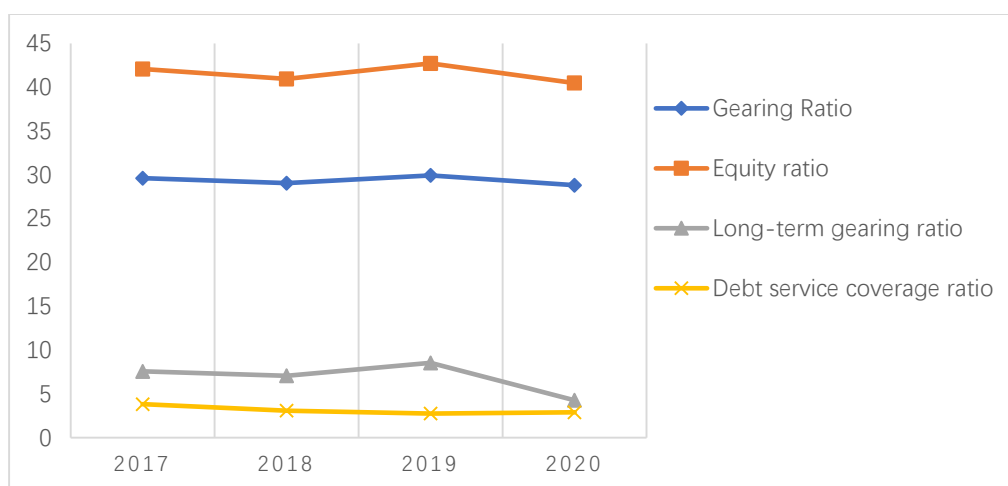


Figure 3: 2017-2020 Analysis Chart Of Tongrentang's Long-Term Solvency.

The asset liability ratio is the ratio of liabilities to assets, which reflects the size of the company's borrowing and can measure the debt level of the company. Generally speaking, a reasonable asset-liability ratio should be maintained at about 50%-60%. Although Tongrentang is an asset-light company, its asset liability ratio is still low and always below 32%, and it is maintained at around 29% most of the time. Through the analysis, it can be seen that Tongrentang adopts a relatively conservative operating model and is unwilling to borrow a large amount of debt. This is not conducive to the company's use of financial leverage and the power of external funds to create greater profits. To a certain extent, it limits the long-term development and development of the company. Business expansion. Tong Ren Tang can make some adjustments to the capital structure of the enterprise and appropriately increase the corporate debt to play the role of financial leverage, to expand the production scale, open up new markets, increase the vitality of the enterprise, and obtain more profits.

The equity ratio is actually another manifestation of the asset liability ratio, but this indicator focuses on the soundness of the financial structure, reflecting the degree of protection of the owner's equity for the interests of creditors when the company is liquidated. It is generally considered that



this indicator is a 1:1 comparison suitable. The lower the ratio, the stronger the long-term solvency of the enterprise, the higher the degree of protection of creditors' rights and interests, and the smaller the risk it bears. From the data in the table, it can be seen that Tongrentang's equity ratio fluctuates little and is generally lower than 50%, which is at a relatively low level. The company's risk is relatively small, and it belongs to a financial structure with good risk control.

The long-term capital liability ratio is the ratio of long-term liabilities to total assets, which is used to reflect the proportion of long-term debts that need to be repaid by the enterprise and interest-bearing long-term liabilities in the entire long-term operating funds, so the proportion should be lower than 20%. According to the data in the table, the long-term asset liability ratio of Tongrentang has been at a low level for a long time, the long-term debt is small and stable, the debt repayment pressure is small, the capital structure risk of Tongrentang is small, the production and operation is in good condition, and the long-term solvency is strong.

At the same time, it can be seen from the data in the table that Tong Ren Tang's debt repayment guarantee ratio is also very stable and remains low. In terms of the current development status, Tong Ren Tang's long-term debt repayment ability is relatively strong.

#### 2.2.4. Comprehensive Analysis of Solvency

According to the above analysis of solvency indicators, Tong Ren Tang Company's short-term solvency and short-term solvency are relatively strong. Tongrentang adopts a profit model of light asset operation, which reduces the interest-bearing debt ratio of the enterprise and increases the interest-free debt ratio. Enterprises obtain a large amount of interest-free debt by integrating the resources of upstream and downstream enterprises in the supply chain, which reduces the financial pressure of the enterprise and enhances its solvency. According to the analysis of various indicators of Tongrentang's debt repayment ability, all ratios tended to normal levels. The debt capacity is still stronger than the industry standard.

While maintaining a strong solvency, Tongrentang's asset structure is not very reasonable. Although the asset liability ratio has been lower than the normal level for a long time, although it will improve the company's long-term solvency, it is not conducive to the company's use of financial leverage and the power of external funds. Creating greater profits limits the long-term development and business expansion of the company to a certain extent. In the long run, it will affect the market size of the company and reduce its market share, leading to a stalemate in Tong Ren Tang.

### 2.3. Operation Ability Analysis

Table 2: 2017-2020 Analysis of Tong Ren Tang's Operational Capabilities.

Ratio/Year	2017	2018	2019	2020
Inventory turnover	1.28	1.24	1.16	1.13
Inventory turnover days	281.25	290.32	310.34	318.58
Accounts receivable turnover	12.75	12.00	11.05	10.92
Accounts receivable days	28.24	30.00	32.58	32.97
Current assets Turnover	0.95	0.93	0.83	0.79
Fixed asset turnover	7.68	6.87	4.39	3.23
total asset turnover	0.75	0.72	0.64	0.60

Operational capability analysis is to analyze the ability of enterprises to manage and use funds. It is to measure the efficiency of enterprise capital utilization by analyzing the relevant measures of the enterprise's operating capital turnover speed. The faster the operating capital turnover of the

enterprise, the better the effect of capital utilization, the higher the efficiency, and the stronger the operating ability of the enterprise. Operational capability analysis includes inventory turnover analysis, accounts receivable turnover analysis, and total asset turnover analysis, as shown in table 2.

It can be seen from Table that the inventory turnover rate of Tongrentang has continued to decline since 2017, which is mainly caused by the rise in raw material prices and the company's shrinking strategy to control costs. In 2019, Tongrentang's inventory turnover rate was 1.16. Compared with Yunnan Baiyao (1.86 inventory turnover rate) in the same industry in the same period, Tongrentang's operating capacity was slightly insufficient, and its inventory liquidity was poor. At the same time, according to the data of inventory turnover days in the past 4 years, the inventory turnover days of Tongrentang have always been greater than 280 days, and there is a continuous growth trend. The speed of inventory realization is slow, and the efficiency of inventory management is low.

Due to the particularity of the industry in which Tongrentang operates, the turnover rate of accounts receivable is generally higher than that of other industries. Tongrentang's account receivable turnover period is short, and the speed is fast. From this financial indicator alone, the company's liquidity is relatively good. However, compared with Yunnan Baiyao in the same industry in the same period (2017 account receivable turnover rate 21.65, 2018 account receivable turnover rate 17.50, 2019 account receivable turnover rate 15.24), since 2017, Tongrentang accounts receivable turnover rate is lower than The accounts receivable turnover rate of Yunnan Baiyao shows that Tongrentang's accounts receivable operating capacity is relatively weak in the pharmaceutical industry. From the perspective of longitudinal data, Tongrentang has continued to decline in the turnover rate of accounts receivable since 2017, the speed of recovery of accounts receivable has decreased, and the efficiency of asset utilization has decreased. Tong Ren Tang's poor asset utilization efficiency can also be seen from the data on the turnover days of accounts receivable. Compared with the turnover days of accounts receivable in the pharmaceutical industry of about 20 days, Tong Ren Tang's account receivable turnover days are higher than the experience, This is not conducive to Tongrentang's capital turnover. As an asset-light enterprise, if it does not change the status quo in time, it is extremely prone to a crisis of capital chain rupture.

The turnover rate of current assets and the turnover rate of fixed assets both showed a state of decline, and the turnover speed of enterprises continued to decrease, among which the increase in the turnover rate of fixed assets in 2020 was mainly caused by the increase in fixed assets due to the completion and consolidation of some projects under construction under construction of Tongrentang's subsidiaries. However, compared with the same industry, Yunnan Baiyao (2017 fixed asset turnover rate 13.79, 2018 fixed asset turnover rate 15.26, 2019 fixed asset turnover rate 15.59), Yunnan Baiyao's fixed asset turnover rate is twice that of Tongrentang, Tongrentang's fixed asset management is not good, and the utilization rate of fixed assets is not high.

Overall analysis: Tongrentang's operating capacity is poor, the liquidity of current assets is poor, and there are also certain problems in inventory, accounts receivable and fixed asset management. Although Tongrentang currently has abundant funds and a perfect capital chain, for an enterprise with asset-light operation mode, the slower turnover speed will affect the normal operation of funds, resulting in a waste of funds, which is not conducive to the long-term development of the enterprise.

## 2.4. Profitability Analysis

Profitability reflects the ability of a company to obtain profits. Profit is an important business goal of an enterprise and the material basis for its survival and development. It is not only related to the investment return of the owner of the enterprise, but also an important indicator for the repayment of debts by the enterprise, as shown in Figure 4.



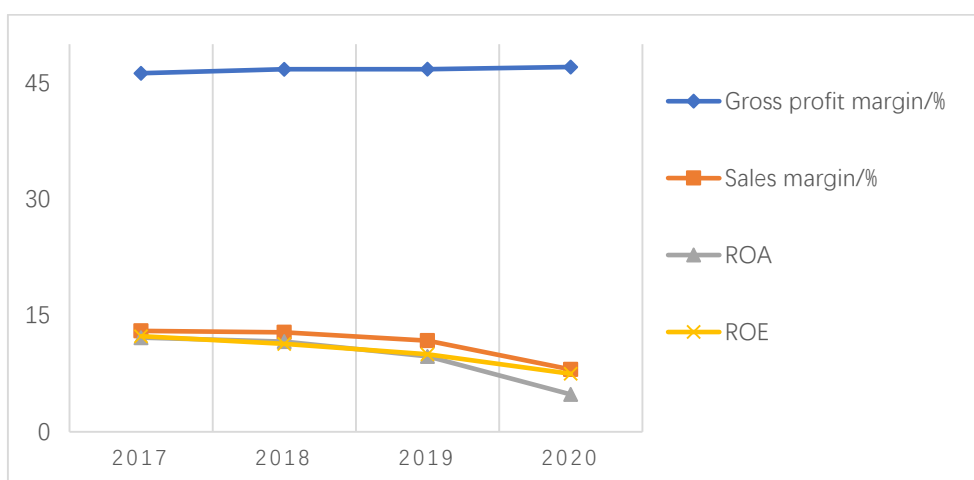


Figure 4: Analysis of Tong Ren Tang's profitability in the third quarter of 2017-2020.

It can be seen from Tab1 that Tongrentang's gross sales margin and net sales margin showed a continuous growth trend and were relatively stable. Compared with Yunnan Baiyao Company in the same industry in the same period (2017 sales gross profit margin 31.19%, 2018 sales gross margin 31.25%, 2019 sales gross margin 28.56%), Tongrentang has obvious advantages. This is because Tongrentang has established its own Chinese herbal medicine planting in recent years. The base has reduced the external dependence on the supply of medicinal materials and production costs. At the same time, Tongrentang has seized more market share through increased marketing and publicity in 2016, increasing its operating income from 12.091 billion yuan in 2016 to 14.209 billion yuan in 2018. Increased revenue and reduced costs.

The return on total assets (ROA) is the proportional relationship between the company's total profit and the average total assets, and the return on equity (ROE) is the percentage ratio of net profit to the owner's equity. These two indicators are the core of measuring the profitability of a company. These two indicators have shown a decline in recent years, indicating that the asset utilization efficiency of Tong Ren Tang is not high.

### 3. Conclusions

In the future development of Tongrentang, attention should be paid to inheriting the tradition, bringing forth the new, and conforming to the development trend of the times. In the process of development, pay attention to the development strategy of core products and focus on innovation. Strengthen internal marketing and publicity internal management. At the same time, we must also conform to the international development strategy and digital development, and strive to build a diversified development level.

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