

Profitability Analysis of Decoration Engineering Company—Take Yongshun Architecture as an Example

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Abstract: In the upsurge of global economic modernization, China's economy has been developing steadily since the reform and opening up, and strategic management has been fully applied in enterprises. According to the economic development of today's society, profitability analysis can describe in detail the economic situation of the business benefits of enterprises, so people will pay more and more attention to the profitability of enterprises. The purpose of enterprise operation is to create profits. Profitability analysis plays a role in supervising and guiding the development of enterprises. It can help enterprise owners or shareholders understand the income and main business costs of the enterprise, and intuitively reflect the increase and decrease of the operating profit and net asset income of the enterprise through data. Therefore, only by improving the profitability of the enterprise can the economic income of the enterprise be effectively improved and the enterprise be in a stable position in the fierce social competition. Profitability analysis is of great significance for enterprises. This paper takes architectural decoration companies as the main research object. Starting from the market background and profit status quo of this type of company, the profitability analysis is taken as the theoretical basis to analyze the profitability indicators of Yongshun Architectural Decoration Co., Ltd. in the past five years. In terms of profitability, it is found that the enterprise has problems such as slow inventory turnover speed, insufficient cash guarantee ability, higher financial risk under expansion strategy and low profit rate of main business, and proposes solutions to the corresponding problems, in order to effectively improve the profitability of Yongshun Building Decoration Company.

1. Introduction

1.1. Research Background

In the current rapidly developing market economy environment, all enterprises hope to stand out, not be affected by the market economy environment, and avoid risks as much as possible. This

requires companies to understand their own profitability. At the same time, using scientific methods to deeply analyze the profitability of enterprises and have a deeper understanding of the factors that can affect the profitability of enterprises is very important for enterprises. At the same time, it also means that it is very urgent to improve the profitability of enterprises by analyzing their profitability and making corresponding decisions.

1.2. Research Purpose and Significance

1.2.1. Research Purpose

This article conducts an in-depth analysis of the profitability of Yongshun Architectural Decoration Company to fundamentally identify the problems in enterprise operation and explore the reasons for their formation. Based on this, propose corresponding solutions to the problems existing in the company, hoping to improve its profitability and promote its stable and sustainable development. In the face of the current fierce market environment, conduct a scientific and effective profitability analysis of Yongshun Architectural Decoration Co., Ltd. to promote its stable and sustainable development.

1.2.2. Research Significance

Only by continuously strengthening profitability can enterprises ensure a foothold in the current market economy. So this article takes Yongshun Building Decoration Company as the research object, analyzes and studies its profitability, and discovers the factors that affect its profitability and the current problems of the company. Whether it is for optimizing and improving the company itself or promoting the development of the industry, it is of great significance.

1.3. Research Status at Home and Abroad

Matthias Raddant (2022) pointed out that analyzing a company's profitability can be done by analyzing various indicators related to profitability. Through these indicators, we can understand the specific problems in profitability and effectively solve them [1].

MehdiKhazaei (2022) believes that the operating results of a company can be reflected through profitability, so to understand the operating status of a company, various indicators of profitability can be analyzed [2].

Jayathilaka Anuruddika K.K.R. (2021) believes that the profitability of a company can be analyzed from the perspective of cost, and the impact of cost on the company's profitability can be found through analysis, analysis reveals the degree to which the cost aspect of a company affects its profitability [3].

Feng Huifang (2022) pointed out that analyzing a company's profitability can be done from the perspective of strengthening internal management, fully understanding the profitability of the company, and effectively promoting its stable development [4].

Gao Jie (2022) proposed that profitability is one of the indicators that reflect a company's management level and financial situation, so the analysis of a company's profitability is of certain importance [5].

Chen Siyuan (2022) believes that the analysis of a company's profitability can start with its influencing factors, and effectively improve the level of a company's profitability based on the degree to which each factor affects it [6].

1.4. Research Content and Methods

1.4.1. Research Content

This article mainly includes four aspects. The first part is an introduction, which provides a brief overview of the research background, purpose, significance, and current research status at home and abroad; The second part is the theoretical overview section; The third part is the analysis of the current situation and problems. Taking Yongshun Architectural Decoration Co., Ltd. as an example, this part analyzes its profitability from four aspects: profitability, cashability, stability, and growth. Through analysis, problems are identified; The fourth part is the countermeasures section, mainly proposing relevant solutions based on the existing problems mentioned above.

1.4.2. Research Method

(1) Literature search method: By collecting and organizing domestic and foreign literature on profitability analysis, and then conducting research on the literature, we can understand the theoretical viewpoints of domestic and foreign scholars on corporate profitability, and then turn the organized content into our own use.

(2) Case analysis method: Taking other enterprises as research objects, conduct in-depth research and analysis on their successful or failed business experiences, and summarize theories and methods that can be used for reference by other enterprises.

(3) Survey method: This article investigates the financial statements and other related materials of Yongshun Building Decoration Co., Ltd. in the past three years, and then conducts in-depth research.

2. Definition and Research Basis of Related Concepts

2.1. Overview of Profitability

2.1.1. Concept of Profitability

Profitability refers to the ability of a company to obtain profits within a certain period of time, which can also be referred to as the ability of a company to increase capital or capital. It is usually used to measure the amount and level of a company's income. The higher the profit margin, the stronger the profitability. For enterprise managers, conducting profitability analysis of the enterprise can identify problems that arise in business management [7].

2.1.2. Profitability Indicators

(1) Profitability indicators

The vitality of various contents in the daily management and operation of an enterprise is the main reflection of profitability. It can reflect the profitability of an enterprise in all aspects. It mainly includes indicators, net sales interest rate, net return on assets, etc. [8]. The article mainly utilizes these two indicators, where the net profit margin on sales is the percentage of net profit to main business income; Net return on assets is the percentage of net profit and net assets.

(2) Cashability indicator for profitability

Cashability indicator of profitability mainly refers to the ability and reliability of a company to obtain cash in its operating activities. The higher the degree, the better the quality of the company's profits. However, when a company processes its financial statements, the income reflected in the income statement often is incorrect or unequal to the actual cash received by the company [9].

Although this method can promote enterprises to obtain profits and achieve significant growth in profits in the short term, whether the sales revenue of goods on the accounting book can be fully converted into cash from sales revenue in a short period of time determines the cash guarantee of enterprise profits and the degree of cash guarantee of goods revenue [10]. The profitability indicators mainly include accounts receivable turnover rate and main business turnover rate. The article mainly analyzes these two indicators, where accounts receivable turnover rate is the ratio between the main business income and the average balance of accounts receivable; The cash flow rate of the main business is the percentage between the cash received from selling goods and providing services and the main business income [11].

(3) Stability indicators of profitability

The indicator that can reflect the profitability stability of a company from the perspective of profitability quality and comprehensive strength is the profitability stability indicator [12]. The stable state of corporate profits can enable enterprises to have a relatively stable market position and competitiveness for a long period of time in the future, which can ensure the sustainable development of the enterprise. The indicators of profit stability mainly include inventory turnover rate and main business profit rate. This article mainly uses these two indicators for analysis, where inventory turnover rate is the ratio between the main business cost and the average balance of inventory; The main business profit margin is the percentage between the main business profit and the main business income.

(4) Growth indicator of Profitability

The growth of profitability mainly refers to whether a company's profitability can continue to maintain a good development trend for a period of time in the future. Growth can be used to measure a company's ability to achieve sustainable development in the future. The growth of an enterprise mainly reflects its future development ability. Based on evaluating factors such as operating income, expenses, and costs, it evaluates and discovers the core competitiveness and future development space of the enterprise [13]. The profit growth indicators mainly include the main business profit contribution rate and earnings per share. The article mainly analyzes these two indicators, where the main business profit contribution rate is the percentage between the main business profit and the total profit; Earnings per share is the ratio of net profit to the average number of ordinary shares.

2.2. Overview of Profitability Analysis

2.2.1. Concept of Profitability Analysis

Profitability analysis mainly evaluates the profit level of a company and the profitability of each project. The analysis of a company's profitability can help to understand its current operating status and predict its future development prospects. In the process of analyzing a company's profitability, various indicators need to be involved, including profitability, cashability, stability, and growth indicators [14].

2.2.2. The Role of Profitability Analysis

The profitability of a company can provide intuitive feedback on its operational status, so both internal and external stakeholders of the company will pay attention to its profitability.

From the perspective of enterprise operation, the acquisition of profits is the ultimate goal of enterprise operation. The higher the profit, the more stable the operating status of the enterprise. The analysis of profitability can fully reflect the operating status of the enterprise, fully understand the problems in profit acquisition during the enterprise operation process, and promptly solve them

[15].

From the perspective of enterprise managers, the higher the profitability of a company, the more stable its operations are. Analyzing various indicators of profitability can provide a deeper understanding of the shortcomings in various aspects of the company and accurately address them [16].

From the perspective of corporate creditors, the analysis of profitability can enable creditors to fully understand the operating status of the enterprise and whether the enterprise has the ability to repay debts, which can be reflected through profitability. Therefore, from the perspective of creditors, it can fully understand whether the enterprise has sufficient ability to repay its own debts [17].

From the perspective of corporate investors, the higher the profitability of a company, the more stable its development. Investing in it can generate relatively stable returns. Therefore, analyzing profitability can provide relevant basis for investors to make decisions [18].

2.2.3. Method of Profitability Analysis

There are many methods that enterprises can adopt in the process of profitability analysis, and they need to choose based on their own actual situation. The most commonly used methods in the process of analysis are the following:

The method of comparing two or more data is the comparative analysis method, which can discover the differences between the two through comparison. Comparative analysis method is one of the main methods for conducting profitability analysis, which mainly discovers problems through comparison and can more clearly understand the operating status of enterprises through financial ratios and indicators [19].

The method of analyzing various factors in a comprehensive indicator is called factor analysis. Through factor analysis, the differences between various factors in the comprehensive indicator of profitability can be understood. Analyzing a company's profitability is generally evaluated based on financial data as a percentage, which is more meaningful than simply absolute numbers [20].

3. Status of Profitability and Problems of Yongshun Construction & Decoration Co

3.1. Introduction of Yongshun Construction & Decoration Co

Hegang Yongshun Construction and Decoration Co., Ltd, which was established on April 18, 2014, with a registered capital of RMB 2 million. Registered address for Hegang City, Dongshan District, Vegetable Garden Township, Rixin Village, the company's main business scope includes construction decoration, metal structures, metal doors and windows manufacturing, General equipment repair, electrical equipment, general equipment, hardware products, building materials, steel wholesale, earthmoving construction activities, office housing project construction activities, Residential housing construction, erection line and equipment engineering construction, pipeline engineering construction, municipal road engineering construction, landscaping engineering construction, human resources outsourcing services, Loading and unloading handling, public building decoration and renovation, construction construction machinery and equipment operating leases.

3.2. Analysis of Profitability Status of Yongshun Construction & Decoration Co

3.2.1. Analysis of Profitability Indicators

Table 1 below provides a specific analysis of the net sales margin of Yongshun Construction & Decoration Co. for the period 2018-2022.

(1) Net sales margin

Table 1: Yongshun Construction & Decoration Co. net sales margin analysis 2018-2022

| Financial Indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------|--------|--------|--------|--------|--------|
| Net profit (million yuan) | 117238 | 166103 | 54719 | 33922 | 23086 |
| Operating income (million yuan) | 513360 | 744377 | 375716 | 290812 | 229412 |
| Net sales margin (%) | 22.34 | 21.76 | 14.12 | 11.66 | 9.90 |

Data source: 2018-2022 financial report of Yongshun Construction & Decoration Co.

As can be seen through Table 1, Yongshun Construction & Decoration Co. shows a decreasing trend in net sales margin from 2018-2022. The decrease from 22.34% in 2018 to 9.90% in 2022 indicates a decrease in the level of profitability of Yongshun Construction & Decoration Co. in the sales process. The main reason is that Yongshun Construction & Decoration Co., Ltd. was affected by industry competition in 2022, which led to a decrease in sales competition, thus affecting the degree of profitability in the earnings process.

(2) Return on net assets

Return on net assets is the percentage of a company's net profit and net assets in a reporting year, which reflects how effectively a company uses its net assets to earn a return. It can be used to evaluate the quality of a company's earnings. The higher the return on net assets, the higher the ability of a company to make profits from its net assets and the more profitable it is.

Table 2: Yongshun Construction & Decoration Co. 2018-2022 Return on Net Assets Analysis Table

| Financial Indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------|-----------|------------|-----------|-----------|-----------|
| Net profit (million yuan) | 117238 | 166103 | 54719 | 33922 | 23086 |
| Net assets (million yuan) | 714865.85 | 1140034.32 | 413910.74 | 293442.91 | 327460.99 |
| Return on net assets (%) | 16.40 | 14.57 | 13.22 | 11.56 | 7.05 |

Data source: 2018-2022 Yongshun Construction & Decoration Co. financial report

As Table 2, Yongshun Construction & Decoration Co. shows a decreasing trend of return on net assets year by year from 2018-2022, from 16.40% in 2018 to 7.05% in 2022. The profitability of the company's net assets is declining, mainly because in recent years, Yongshun Construction & Decoration Co. Most of the capital is invested in the expansion, which leads to a certain shortage of cash and affects the profitability of the company.

3.2.2. Analysis of Cashability Indicators

Table 3 is a specific analysis of the accounts receivable turnover of Yongshun Construction & Decoration Co. from 2018-2022.

(1) Accounts receivable turnover rate

Table 3: Yongshun Construction & Decoration Co. accounts receivable turnover ratio, 2018-2022

| Financial Indicators | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|-----------|----------|----------|----------|----------|
| Operating income (million yuan) | 744377 | 513360 | 375716 | 229412 | 290812 |
| Average balance of accounts receivable (million yuan) | 115228.64 | 96677.97 | 75596.78 | 46628.46 | 59873.86 |
| Accounts receivable turnover ratio (times) | 6.46 | 5.31 | 4.97 | 4.92 | 4.86 |

Data source: 2018-2022 Yongshun Construction & Decoration Co. financial report

Decoration Co. shows a decreasing trend year by year from 2018-2022, from 6.46 times in 2018 to 4.86 times in 2019. This indicates that the company's accounts receivable turnover is weak and cannot provide sufficient capital power for the enterprise in a timely manner. The main reason for this phenomenon is due to the lack of attention to the management of accounts receivable by the enterprise. This leads to the failure to collect accounts receivable in the enterprise in a timely manner and affects the liquidity of accounts receivable.

(2) Main business revenue rate

The following Table 4 shows the specific analysis of the main business collection rate of Yongshun Construction & Decoration Co. from 2018-2022.

Table 4: Yongshun Construction & Decoration Co. main business cash flow analysis for the period 2018-2022

| Financial Indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|-----------|-----------|-----------|-----------|-----------|
| Cash received from the sale of goods and provision of services (in thousands) | 755542.66 | 514386.72 | 373687.13 | 219822.58 | 276736.70 |
| Revenue from main business (million yuan) | 744377 | 513360 | 375716 | 229412 | 290812 |
| Main business cash collection rate (%) | 101.50 | 110.20 | 99.46 | 95.82 | 95.16 |

Data source: 2018-2022 Yongshun Construction & Decoration Co. financial report

From Table 4, it can be seen that Yongshun Construction & Decoration Co. has an overall decreasing trend in the main business collection ratio from 2018 to 2022, from 101.50% in 2018 to 95.16% in 2022. This indicates that the cash from the sales process of the company is not well recovered. This lower cash recovery from sales can affect the quality of earnings of the company in the industry. The main reason is that Yongshun Construction & Decoration Co., Ltd. has focused on the expansion of its scale and has neglected the recovery of cash from sales, which has led to a decreasing trend of the company's main business collection rate year by year in recent years.

3.2.3 Analysis of stability indicators

Table 5 below is a specific analysis of the inventory turnover of Yongshun Construction & Decoration Co. from 2018-2022.

(1) Inventory turnover rate

Table 5: Inventory turnover ratio of Yongshun Construction & Decoration Co. 2018-2022

| Financial Indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---------|----------|----------|----------|----------|
| Operating cost (million yuan) | 154310 | 196346 | 2442278 | 321008 | 476485 |
| Average balance of inventories (million yuan) | 9290.19 | 10688.41 | 13892.09 | 21956.77 | 48081.23 |
| Inventory turnover ratio (times) | 16.61 | 18.37 | 17.44 | 14.62 | 9.91 |

Data source: 2018-2022 Yongshun Construction & Decoration Co. financial report

The overall trend of inventory turnover of Yongshun Construction & Decoration Co. from 2018-2022 can be seen through Table 5, which shows a decreasing trend. It decreases from 16.61 times in 2018 to 9.91 times in 2022, which indicates that there is a certain amount of inventory in Yongshun Construction & Decoration Co. and the inventory is slow to be realized and cannot fund

the business operations quickly. This, to a certain extent, indicates the weak stability of earnings quality of Yongshun Construction & Decoration Co.

(2) Profit margin from main business

Table 6 below shows a specific analysis of the profitability of the main business of Yongshun Construction & Decoration Co. from 2018-2022.

Table 6: Yongshun Construction & Decoration Co. main business profit margin analysis, 2018-2022

| Financial Indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|-----------|-----------|-----------|----------|----------|
| Profit from main business (million yuan) | 274154.05 | 181729.44 | 130298.31 | 73457.72 | 91838.43 |
| Revenue from main business (million yuan) | 744377 | 513360 | 375716 | 229412 | 290812 |
| Profit margin from main business (%) | 36.83 | 35.40 | 34.68 | 32.02 | 31.58 |

Data source: 2018-2022 Yongshun Construction & Decoration Co. financial report

Table 6 shows the main business profit margin of Yongshun Construction & Decoration Co. from 2018-2022, from Table 6 it can be seen that the main business profit margin of Yongshun Construction & Decoration Co. decreased from 36.83% in FY2018 to 31.58% in FY2022. It indicates that the enterprise's ability to generate profits from its main business is decreasing, reflecting the enterprise's average profitability. The main reason is that the growth of main business income is greater than the profit from main business of Yongshun Construction & Decoration Co. Due to the more intense competition among the construction industry in 2022, the company's new drug development could not occupy a certain position in the market, thus leading to a decline in the profitability of Yongshun Construction & Decoration Co.'s main construction development business, which could not provide an impetus to improve the company's profitability.

3.2.4 Analysis of growth indicators

(1) Profit contribution rate of main business

Table 7 below is the specific analysis of the profit contribution rate of Yongshun Building Decoration Co., Ltd. from 2018 to 2022 from 2018 to 2022.

Table 7: Profit contribution rate of Yongshun Building Decoration Co., Ltd. from 2018 to 2022

| Financial indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|-----------|-----------|-----------|----------|----------|
| Main business profit (million yuan) | 274154.05 | 181729.44 | 130298.31 | 73457.72 | 91838.43 |
| Total profit (million yuan) | 103948.60 | 79254.01 | 63248.54 | 51261.49 | 66607.51 |
| Main business profit contribution rate (%) | 263.74 | 229.30 | 206.01 | 143.30 | 137.88 |

Data source: 2018-2022 Yongshun Building Decoration Co., Ltd. financial report

Table 7 shows the profit contribution rate of the main business of Yongshun Building Decoration Co., Ltd. from 2018 to 2022, and the profit contribution rate of the main business decreased from 26.74% in 2018 to 137.88%, showing an overall downward trend, which shows that the main business of Yongshun Building Decoration Co., Ltd. lacks stability, and the source of profit mainly relies on the main business income of fees, and the profit channel is relatively single. The main reason is that although the main business profit and total profit of Yongshun Building Decoration Co., Ltd. have increased significantly, the increase in total profit is greater than the main business profit, and the total profit increases more rapidly, which eventually leads to a decline in the profit contribution rate of the main business. This shows that the core position of the company's main business has changed, and it is no longer the main source of corporate profits. From the perspective of profit contribution rate of the main business, the profit sustainability of Winson Building Decoration Co., Ltd. is weak.

(2) Earnings per share

Earnings per share refers to the ratio of the company's net profit to the average number of

ordinary shares, reflecting the profit that the company can obtain per dividend and the losses it needs to bear. The higher the earnings per share, the more earnings the company brings.

According to the changes in earnings per share of Yongshun Building Decoration Co., Ltd. from 2018 to 2022 in Table 8, there is a downward trend year by year, indicating that the profitability stability of the enterprise is weak. The main reason is that Winson Building Decoration Co., Ltd. has focused on expanding its scale in recent years, resulting in expanding its own scale without considering its own profitability. Therefore, Winson Building Decoration Co., Ltd. needs to increase its earnings per share to improve its own profitability.

Table 8: Analysis of earnings per share of Winson Building Decoration Co., Ltd. from 2018 to 2022

| Financial indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|----------|-----------|----------|----------|----------|
| Net profit (million yuan) | 117238 | 166103 | 54719 | 33922 | 23086 |
| Average number of common shares (10,000 shares) | 55827.62 | 112231.75 | 65926.51 | 59512.28 | 59194.87 |
| Earnings per share | 2.10 | 1.48 | 0.83 | 0.57 | 0.39 |

Data source: 2018-2022 Yongshun Building Decoration Co., Ltd. financial report

Table 9: Analysis of earnings per share of Winson Building Decoration Co., Ltd. from 2018 to 2022

| Financial indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|----------|-----------|----------|----------|----------|
| Net profit (million yuan) | 117238 | 166103 | 54719 | 33922 | 23086 |
| Average number of common shares (10,000 shares) | 55827.62 | 112231.75 | 65926.51 | 59512.28 | 59194.87 |
| Earnings per share | 2.10 | 1.48 | 0.83 | 0.57 | 0.39 |

Data source: 2018-2022 Yongshun Building Decoration Co., Ltd. financial report

According to the changes in earnings per share of Yongshun Building Decoration Co., Ltd. from 2018 to 2022 in Table 9, there is a downward trend year by year, indicating that the profitability stability of the enterprise is weak. The main reason is that Winson Building Decoration Co., Ltd. has focused on expanding its scale in recent years, resulting in expanding its own scale without considering its own profitability. Therefore, Winson Building Decoration Co., Ltd. needs to increase its earnings per share to improve its own profitability.

3.3. Problems in the Operation of Winson Building Decoration Co., Ltd

3.3.1. Slow Inventory Turnover

The inventory turnover rate of Yongshun Building Decoration Co., Ltd. in 2018-2022 shows a trend of making money, this phenomenon indicates that the inventory turnover rate of Yongshun Building Decoration Co., Ltd. in recent years is slower, and there is a certain backlog, the reason for this phenomenon is due to the lack of attention to inventory in the process of inventory management of Yongshun Building Decoration Co., Ltd. In 2018-2022, there is a lack of accurate prediction of the sales market, blindly according to the company's past sales experience to produce products, but the products produced can not meet the needs of the sales market, resulting in the inventory existing in the enterprise can not be effectively turned, the phenomenon of backlog, inventory backlog can not provide sufficient operating funds for enterprise operation in time, thus affecting the cash security ability of enterprises. In addition, Yongshun Building Decoration Co., Ltd. also lacks attention to the internal control management of inventory, and does not reasonably classify inventory according to characteristics, resulting in some inventory that needs to be refrigerated being stored at room temperature, resulting in the loss of some inventory, which will also affect the turnover speed of inventory.

3.3.2. Insufficient Cash Protection Capacity

The lack of funds has been a stumbling block for construction companies. As far as the development of enterprises is concerned, due to the increasingly fierce market competition, Yongshun Building Decoration Co., Ltd. has great difficulties in order acceptance, inventory backlog, payment recovery, capital turnover and other aspects. Through the analysis of the profitability cashiness index of Yongshun Building Decoration Co., Ltd., it is found that its accounts receivable turnover rate and main business cash rate show a downward trend from 2018 to 2022, mainly because the current construction market competition is fierce, and Yongshun Building Decoration Co., Ltd. has not made a good recovery of its own funds, thereby reducing the cashiness of corporate profitability. The current cash collection of Yongshun Building Decoration Co., Ltd. is weak, and its ability to provide funds in the realization of accounts receivable needs to be strengthened, and the cash acquisition ability of the main business is also weak, indicating that the current cash guarantee ability of Yongshun Building Decoration Co., Ltd. is insufficient and cannot provide sufficient capital inflow for enterprises.

3.3.3. Increased Financial Risk under the Expansion Strategy

Winson Building Decoration Co., Ltd. has expanded rapidly since its establishment, and its development momentum is quite strong. Of course, although the initial rapid expansion strategy brought huge market benefits to the company, it also faced many risks in the process of its rapid expansion. In order to open up some emerging markets, Winson Building Decoration Co., Ltd. is accustomed to opening up the market by increasing the number of sales points, and although this strategy can quickly seize the market, it increases the company's costs, and the high costs increase the financial burden of the enterprise. In addition, rapid expansion regardless of the actual market situation will not only greatly reduce the company's overall profitability, but also hinder the long-term development of Winson Building Decoration Co., Ltd. With the expansion strategy, the business scope of Yongshun Building Decoration Co., Ltd. will also be expanded, and through careful analysis of the net profit margin of sales of Yongshun Building Decoration Co., Ltd., it can be found that the net profit margin of the overall sales revenue of Yongshun Building Decoration Co., Ltd. from 2018 to 2022 will decrease year by year, which will have a negative impact on the profitability of the company.

3.3.4. The profit Margin of the Main Business is Low

The current profit margin of the main business of Yongshun Building Decoration Co., Ltd. shows a downward trend, mainly because the construction development business in Yongshun Building Decoration Co., Ltd. is the largest business in the whole business of the enterprise, and the building development capacity of Yongshun Building Decoration Co., Ltd. is relatively weak, and it takes a long time to develop the construction business, which will have an impact on the company's total profit margin, and this lower main business profit margin will have an impact on the market competitiveness of the enterprise. The overall share of Winson Building Decoration Co., Ltd. in the construction industry will be lowered. The reason for this phenomenon is that due to the frequent changes in the industry, the products developed by Yongshun Building Decoration Co., Ltd. have not achieved the expected effect in the market, and there is a phenomenon of high homogeneity with the business in the market, which will have an impact on the overall business profitability of Yongshun Building Decoration Co., Ltd. and cannot obtain more ideal profits. Moreover, due to the focus of operation on the construction development business and the neglect of the development of the main business, the company's current construction development business and main business can not bring the expected profit to the company, which will have an impact on the overall profitability

of Winson Building Decoration Co., Ltd. in the long run.

4. Recommendations to Improve the Profitability of Winson Building Decoration Co., Ltd

4.1. Speed Up Inventory Turnover

4.1.1. Open Inventory Sales Channels

Yongshun Building Decoration Co., Ltd. needs to optimize its own marketing system to ensure the balance of the company's production and sales, and fully adjust all aspects of product supply, production and marketing, but in the process of adjustment, it is necessary to combine the actual situation of the company to balance the demand and supply in the product. In order to avoid the phenomenon of inventory backlog in the enterprise, Yongshun Building Decoration Co., Ltd. needs to open the sales channel, some inventory with a long backlog for low-price sales, for some inventory that has just generated a backlog, you can use credit sales to sell the inventory, which can speed up the turnover of inventory and reduce the loss caused by the inventory backlog.

4.1.2. Fully Judge the Sales Market

Yongshun Building Decoration Co., Ltd. also needs to fully understand and judge the sales market, and comprehensively understand the demand for products in the market. Can be based on the upstream enterprise of the product, according to the degree of demand of the upstream enterprise for the product, the most suitable sales channel for rapid search, for some products with a low degree of market demand, enterprises can reduce the production of this aspect of the product, and for the product with a higher degree of demand, the enterprise needs to increase production, but in the process of production or to maintain the principle of balance between production and marketing, can not produce too many products, The main reason is that the demand of the market is unpredictable, and there are certain differences in the demand for products. Therefore, Yongshun Building Decoration Co., Ltd. can fully optimize its own inventory structure, effectively reduce the risk of backlog, make reasonable use of the inventory resources owned by the enterprise, and effectively promote the improvement of inventory liquidity.

4.2. Enhance the Cash Security of Earnings

4.2.1. Pay Attention to the Efficiency of Capital Flow

First of all, the current low cash protection ability has reduced the overall profit quality of Winson Building Decoration Co., Ltd., in order to improve the company's profit quality, it is necessary to pay attention to the acquisition of the company's capital flow during the company's normal operation. Yongshun Building Decoration Co., Ltd. should fully consider the availability of asset input when financing, strengthen the management and testing of the company's own capital chain, and pay attention to the improvement of the company's capital flow efficiency while improving the profit level. Because cash is the "blood" of the company, is the cornerstone of supporting survival and growth, under the continuous flow of cash the company can operate normally, once the cash is insufficient, the normal operation of the company will be greatly hindered, and even the risk of bankruptcy of the company in severe cases.

4.2.2. Improve Asset Turnover Capacity

Yongshun Building Decoration Co., Ltd. needs to use funds to develop new businesses, and then

use the funds generated from sales to develop again, in order to achieve continuous circular operation and enhance the company's cash guarantee ability. As Yongshun Building Decoration Co., Ltd.'s corporate financial work goal is to maximize the company's value, it is necessary for Yongshun Building Decoration Co., Ltd. to follow the principle of cash being king, To ensure the liquidity of cash in the enterprise, and to fully manage and plan the cash of the enterprise, Yongshun Building Decoration Co., Ltd. needs to improve the turnover ability of its own assets, allowing for rapid asset turnover to provide a certain amount of operating capital for the enterprise. Moreover, the improvement of asset turnover ability in the enterprise can not only bring a certain amount of capital to the enterprise, but also improve the cashability of the enterprise's profits, The higher the cashability, the more cash a company can obtain in the process of operation, which enhances the cash security of the company's profits and effectively promotes the improvement of the quality of the company's profits.

4.3. Reasonable Strategic Positioning to Reduce Financial Risks

4.3.1. Tilt Business Focus and resources Towards Main Business

Firstly, Yongshun Architectural Decoration Co., Ltd. must shift its business focus and resources towards its main business, reform its growth model, and reasonably position its development strategy. The profitability of the main business not only reflects the company's core strength, but also plays a crucial role in the company's market competitiveness and long-term stable development. Due to Yongshun Building Decoration Co., Ltd.'s main focus on building business development, it is necessary to pay attention to the gross profit income ratio indicator of building business development. Therefore, the operational strength of new drugs will have a decisive impact on the development prospects of Yongshun Building Decoration Co., Ltd. With the outbreak of the epidemic, competition in the construction industry has become fierce, so the development of construction business plays an important role in increasing market share for enterprises. Therefore, developing and operating advantages through construction business can help improve customer stickiness, thereby promoting the vigorous development of other businesses of the company.

4.3.2. Reduce Company Operating Costs

Yongshun Architectural Decoration Co., Ltd. reduces operating costs, strengthens management models, and enhances the company's profitability. The main reason is that the products operated by Yongshun Architectural Decoration Co., Ltd. are different from other easily circulated goods, and in order to make profits, it is necessary to strengthen cost control. Yongshun Architectural Decoration Co., Ltd. must also make every effort to control operating costs and expenses, and use a scientific and reasonable salary system to control management and sales costs, in order to create a greater competitive advantage and continuously enhance the company's core competitiveness. At the same time, in addition to cost savings, enterprises also need to achieve open source, that is, through innovative operational management models, increase the company's profit growth points, and thereby enhance the company's profitability.

4.4. Improve the Profit Margin of the Main Business of the Enterprise

4.4.1. Fully Utilize one's Own Brand Advantages

The development of construction business is the main source of profits for Yongshun Building Decoration Co., Ltd. Currently, although the development of construction business can bring certain profits to the enterprise, the enterprise still needs to maintain the competitiveness of its main

business in the market during the development process, fully shape the brand advantage of the product, use the brand advantage to increase customer traffic, and effectively improve the profitability of the main business, The main reason is that Yongshun Architectural Decoration Co., Ltd. has accumulated certain brand advantages in the development of previous years, laying a solid foundation in both product quality and service. Therefore, when improving the profit margin of its main business, Yongshun Architectural Decoration Co., Ltd. can fully utilize its brand advantages to expand the market size of its main business, thereby effectively promoting the increase of its product sales volume, Improve the profit margin of the main business of the enterprise.

4.4.2. Effectively Integrating Sales Channels

Yongshun Building Decoration Co., Ltd. regards building business development as its core business in its operations. On the basis of ensuring the development of building business, it is necessary to attach importance to its main business, effectively leverage the brand advantages of its main business, and open up sales channels for products related to building business development. This can not only increase the proportion of Yongshun Building Decoration Co., Ltd.'s products in the market, It is also possible to fully utilize the resources owned by the company, while retaining the original market, to develop the potential sales market of the enterprise, effectively expanding the profit space within the enterprise. Yongshun Architectural Decoration Co., Ltd. can expand its sales channels to online channels, using e-commerce sales to promote new businesses, so that the market can have a full understanding of new products. Based on this, the original sales team of the enterprise will be adjusted, and personnel with e-commerce experience will be introduced to effectively refine its own products, manage and integrate channels, Fully improve the profitability of the main business in the enterprise.

5. Conclusions

Based on the relevant theories of profitability, Yongshun Building Decoration Co., Ltd. is the main research object to conduct in-depth research on its profitability. The main indicators of profitability, cashability, stability, and growth are selected to analyze its profitability. Through analysis, problems are identified and the following conclusions are drawn:

Firstly, Yongshun Architectural Decoration Co., Ltd. needs to have a clearer judgment on the current market, based on the upstream and downstream volumes of the enterprise's product chain, have a correct judgment on market sales, and continuously adjust the inventory structure based on the judgment to avoid inventory backlog as much as possible.

Secondly, Yongshun Architectural Decoration Co., Ltd. needs to attach importance to the acquisition of company capital flow. When financing, it is necessary to fully consider the cashability of asset investment, strengthen the management and testing of the company's own capital chain, and pay attention to the improvement of the company's capital flow efficiency while improving profit levels.

Once again, Yongshun Architectural Decoration Co., Ltd. must shift its business focus and resources towards its main business, reform its growth model, and reasonably position its development strategy. The profitability of its main business not only reflects the company's core strength, but also plays a crucial role in the company's market competitiveness and long-term stable development.

Finally, Yongshun Architectural Decoration Co., Ltd. needs to strive to increase its product market share, make reasonable use of resources, focus on building direct sales capabilities for online business, strengthen the ability to promote new products in real time, develop potential consumer markets, and promote the expansion of corporate profit margins.

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