

Case Study on Supply Chain Financing of Gree Electric Appliances

Ao Huan

Heilongjiang University, Harbin, Heilongjiang, 150080, China

Keywords: Supply Chain, Gree Electric Appliances, Financial Analysis

Abstract: In this paper, we delve into the intricate financial strategies of Gree Electric Appliances, a leading player in the global air conditioning market. Gree's journey, characterized by innovative approaches and strategic foresight, offers profound insights into modern financial management within a complex supply chain network. At the heart of Gree's success lies its use of financial instruments and sales models. Gree uses it not only as a tool to maximize profits, but also as an integral part of strengthening supply chain resilience and promoting symbiotic relationships with partners [1]. By examining Gree's adoption of the "payment before delivery" model and its nuanced application in bill endorsing and discounting, we uncover a strategic layering of financial practices that goes beyond conventional cash flow management. Additionally, the implementation of the "sales rebate" model and the "joint-stock region" sales strategy further illustrates Gree's commitment to cultivating a mutually beneficial ecosystem, aligning the interests of manufacturers and distributors toward shared goals. This exploration into Gree Electric Appliances' financial tactics illuminates how a blend of innovative sales techniques, astute financial planning, and collaborative relationships can coalesce to form a robust framework, capable of navigating market dynamics and enhancing competitive advantage. The insights gleaned from Gree's approach are not only pertinent to industry leaders and financial strategists but also offer valuable lessons for businesses endeavoring to thrive in today's intricate global market landscape.

1. Introduction

In 2013, Gree Electric entered a mature stage of development, during which it began to use various means to reduce business risks, improve business efficiency, and ensure its leading position in the industry [2]. Therefore, starting from 2013, Gree Electric's financing has gradually shifted from traditional stock financing to bond financing. The debt types of Gree Electric from 2018 to 2021 are shown in Table 1.

In the early stages, Gree heavily relied on equity financing, a common strategy for growing companies seeking to avoid debt and its associated risks. However, as the company matured and the market dynamics shifted, Gree adapted its financing strategy, gradually shifting towards debt financing. This move, indicative of a mature company confident in its cash flows and market position, came with its own set of challenges and opportunities [3]. The period from 2018 to 2021 is particularly telling of Gree's financial strategy. During these years, the company's debt structure saw

a significant imbalance between short-term and long-term liabilities [4]. The data reveals an overwhelming reliance on short-term borrowing, with long-term debts consistently accounting for less than 6% of the total debt portfolio. This heavy reliance on short-term financing is a double-edged sword. While it offers flexibility and ease, it also brings significant repayment pressures and potential instability to the company's cash flow. Gree's financing during this period also highlighted an over-reliance on commercial credit, encompassing notes payable, accounts payable, and advances from customers. This over-dependence on commercial credit, forming over 70% of short-term borrowings, reflects a precarious financial position. It not only increases the company's vulnerability to market fluctuations but also places a considerable strain on its operational liquidity [5].

Table 1: Types of Gree Electric Appliances Debt from 2018 to 2021

Debt type	project	2018	2019	2020	2021
Short term liabilities	Short term loans	27.01%	17.49%	27.00%	24.92%
	Notes payable	13.27%	27.73%	28.49%	36.76%
Long term liabilities	Accounts payable	47.72%	45.70%	42.02%	32.37%
	Advance receipts	11.99%	9.02%	0.00%	0.00%
	Long term loans	0.01%	0.06%	2.48%	5.96%

As a key player in the supply chain, Gree's financial health has far-reaching implications. Any instability or financial misstep by Gree could have a domino effect, impacting not just the company but also its suppliers, distributors, and even customers. This interconnectedness underscores the need for a more balanced and prudent financial strategy. Another aspect of concern is the limited diversification in Gree's debt instruments. The company's debt portfolio, concentrated in a few types of short-term instruments, is a risky proposition. This lack of diversity in financing exposes Gree to the whims of the market and can potentially hinder its ability to respond to unforeseen challenges.

2. Motivation for Gree Electric Appliances Financing

Gree Electric Appliances, a powerhouse in the air conditioning industry, stands not only as a beacon of manufacturing excellence but also as a strategic financier within its supply chain [6]. The company, robust in capital strength, operates within a network where most upstream suppliers and downstream distributors are small to medium enterprises (SMEs) with limited financial clout and imperfect regulatory frameworks. Gree's approach to financing within this network reveals much about its motivations and strategic goals. Gree's supply chain is a complex web, where SMEs face significant challenges in securing necessary funds from traditional financial institutions. These challenges, ranging from limited financing options to cumbersome processes, often hinder these enterprises from meeting the operational demands of Gree, thus potentially constraining Gree's own growth. Recognizing this, Gree has shifted its focus towards supply chain financing as a solution to these pervasive issues [7].

By adopting supply chain financing, Gree has effectively maneuvered to aid its partners in overcoming financial hurdles. This strategy not only eases the cash flow concerns of its smaller partners but also increases their dependency on Gree. Such dependency is not merely a one-way street; it enhances the bond between Gree and its partners, creating a more cohesive and stable supply chain.

Before the advent of supply chain financing, Gree's primary method of obtaining funds was through bank loans – a process that, while effective in ensuring liquidity, resulted in significant yearly interest expenditures. With the introduction of supply chain financing, Gree has managed to accrue a substantial amount of interest-free liabilities from its partners. This method benefits not only Gree but also its partners, who can access lower interest rates with Gree's backing, ultimately

reducing the production costs across the entire supply chain.

Furthermore, Gree's venture into supply chain financing has effectively bridged its industrial operations with financial services, allowing for a harmonious integration of industry and finance. Leveraging its industrial prowess, Gree has expanded its financing channels, reduced capital costs, and enhanced profit margins industry-wide. This integration aids in establishing a mutually beneficial supply chain ecosystem.

The adoption of supply chain financing necessitates an in-depth understanding of the transaction dynamics and operational health of suppliers and distributors. Gree, utilizing its core corporate status, has the advantage of accessing real-time data on supplier certification, supply ratios, contracts, and accounts receivable. This access enables Gree to manage and control risks across the supply chain effectively.

Differing from traditional financing models, SMEs within the supply chain financing framework benefit from Gree's solid credit standing. This backing enhances their ability to withstand market fluctuations and reduces operational risks, thereby bolstering the overall competitiveness of the supply chain.

Gree Electric Appliances' foray into supply chain financing is a testament to its strategic foresight in recognizing and addressing the intrinsic challenges within its operational ecosystem. This approach is not merely about securing Gree's financial interests; it's a holistic strategy aimed at fortifying the entire supply chain. By providing financial support to SMEs, Gree not only ensures a steady flow of operations but also cultivates a network of interdependent and efficient partners.

In essence, Gree's financing motivations are rooted in a vision to create a resilient, cost-effective, and competitive supply chain. This vision is realized through a multi-faceted approach that includes fostering growth and dependency among partners, reducing overall production costs, synergizing industry and finance, and enhancing the supply chain's overall competitiveness.

Gree's strategic financing is more than just a business maneuver; it's a comprehensive effort to uplift the entire ecosystem it operates within. By strengthening its partners financially, Gree not only secures its supply chain but also contributes to the broader economic stability of the sectors it interacts with. This approach demonstrates a profound understanding of the interconnected nature of modern business, where the health of each entity within the supply chain directly impacts the others.

Through supply chain financing, Gree has established a model of cooperative development, where each participant, from the smallest supplier to the largest distributor, plays a vital role in the collective success. This model not only ensures Gree's continued dominance in the air conditioning industry but also solidifies its reputation as a leader in innovative financial strategies.

In conclusion, Gree Electric Appliances' move towards supply chain financing reflects a deep commitment to a sustainable and prosperous future for itself and its partners. By leveraging its financial strength to support smaller enterprises in the supply chain, Gree is not only mitigating risks and reducing costs but also fostering a more collaborative and robust business environment. This strategy, characterized by foresight and mutual benefit, is a shining example of how a company can extend its influence beyond its immediate operations and positively impact the wider industry landscape.

3. The Main Models of Supply Chain Financing for Gree Electric Appliances

3.1 Sales Model of "Joint-Stock Region"

In response to aggressive price wars among distributors vying for market share, Gree Electric Appliances has innovatively implemented the "joint-stock region" sales model. This model represents a paradigm shift in the company's approach to market penetration and supply chain

collaboration. At the heart of this model is a collaborative venture between Gree and leading local distributors. Together, they establish new sales companies through shared investments, with ownership denoted by stock proportions. This approach forges a bond of mutual interest, transforming the traditional buyer-seller dynamic into a partnership rooted in shared success and challenges.

Gree's use of capital as a unifying force is pivotal in aligning its interests with those of its distributors. By becoming stakeholders in the venture, distributors are incentivized to prioritize Gree's products, fostering a symbiotic relationship. This structure ensures that both parties are not merely engaged in a transactional relationship but are instead integral to each other's prosperity. For Gree, this model offers multiple advantages. Upon establishing a sales company, Gree sets up manufacturing facilities in the region, leveraging the distributor's sales network for rapid market capture. This strategic move not only accelerates market penetration in new regions but also significantly reduces operational costs and enhances competitive edge. Distributors, on their part, are motivated by the promise of returns proportional to their fulfillment of Gree's annual sales targets. This structure not only heightens their enthusiasm and loyalty but also boosts Gree's product sales. It's a win-win situation: distributors benefit from being part of a lucrative venture, while Gree enjoys increased liquidity and operational efficiency. A critical outcome of the "joint-stock region" model is the fortified relationship between Gree and its distributors. By transcending the traditional hierarchical or transactional bonds, Gree and its partners have cultivated a more resilient and interdependent alliance. This collaboration extends beyond mere sales; it encompasses shared goals, risks, and triumphs, strengthening the supply chain's overall effectiveness and stability.

Gree Electric Appliances' "joint-stock region" sales model is a testament to the company's innovative approach in confronting market challenges. By transforming its relationship with distributors into a partnership of shared interests, Gree has not only enhanced its market presence but also established a more efficient and stable supply chain. This model serves as a blueprint for other companies seeking to navigate the complexities of market competition and supply chain management.

In essence, the "joint-stock region" model by Gree Electric Appliances is more than a mere sales strategy; it's a strategic alliance that redefines market penetration and supply chain dynamics. It exemplifies how collaborative models can create synergies that benefit all stakeholders involved – from the manufacturer to the distributor, and ultimately to the consumer. This innovative approach not only maximizes profitability and market share for Gree but also ensures a sustainable and robust growth trajectory for the company and its partners. By fostering a culture of mutual success and shared goals, Gree has positioned itself not just as a leader in product innovation but also as a pioneer in strategic market engagement.

In the realm of competitive global markets, Gree's "joint-stock region" sales model shines as an example of how companies can leverage collaborative strategies to create resilient business ecosystems. It demonstrates the power of partnership and shared investment in achieving common goals, making it a valuable case study for businesses aiming to enhance their competitive edge while nurturing strong, sustainable relationships within their supply chain.

3.2 Sales Rebate Sales Model

Gree Electric is the first household appliance enterprise in China to implement the sales model of "sales rebate". According to the information in Table 2, the scale of Gree Electric's sales rebate and other current liabilities showed a significant upward trend in 2017-2021, in which sales rebate accounted for a very high proportion of other current liabilities. Except for the decline in

performance caused by the COVID-19 epidemic in 2020, the proportion of sales rebate in other years exceeded 90%.

Table 2: Sales rebate scale of Gree Electric Appliances from 2017 to 2021 (100 million yuan)

Unit	2017	2018	2019	2020	2021
Sales rebate	582.20	594.66	618.78	617.52	558.08
Other current liabilities	597.59	609.12	633.62	651.81	643.82
Sales rebates/other current liabilities	97.42%	97.63%	97.66%	94.74%	86.68%

Gree Electric Appliances has adopted a unique "sales rebate" model, a multifaceted approach encompassing four key strategies: payment discounting, pickup rewards, off-season incentives, and year-end rebates. For instance, consider a distributor whose annual sales in 2022 amount to \$1 million. In September, they might transfer \$300,000 to the manufacturer, earning a 4% rebate on this payment, which translates to a rebate of \$12,000 for that month. During the off-season, from October to March, the distributor might pick up goods worth \$500,000, calculated at off-season retail prices. The rewards for picking up goods during this period start at 4% of the pickup amount, decreasing by 0.5% each month. If the distributor fulfills the off-season sales target, they receive a reward of 1-2% of the amount picked up from September to the following March; failing to meet the target means no reward.

This rebate financing model effectively addresses seasonal sales discrepancies between manufacturers and distributors, easing production pressure on suppliers and inventory stress on distributors during slower sales periods. It thus helps in balancing production and sales fluctuations. The prospect of earning rebates incentivizes distributors to increase their sales efforts, which in turn lowers their operational costs and boosts profitability. For Gree Electric Appliances, this approach not only optimizes relationships within the supply chain but also reduces operational costs and enhances profitability, utilizing the leverage of the industry chain to its advantage.

3.3 The Sales Model of "Payment before Delivery"

Gree Electric Appliances extensively employs a 'payment before delivery' sales model, which has had a profound impact on their supply chain financing approach. This model enables Gree to collect a significant amount of advance payments from downstream distributors, utilizing these funds as working capital to alleviate financial pressure. It ensures ample cash flow to manage potential risks. Furthermore, by receiving payments before shipping goods, Gree substantially reduces the occurrence of accounts receivable, minimizing the risk of bad debts and delinquencies. This strategic approach not only streamlines Gree's financial operations but also enhances its fiscal stability and risk management. As shown in Table 3, from 2017 to 2021, Gree Electric Appliances obtained a large amount of funds free of charge from upstream and downstream enterprises through accounts payable and advance receipts, and also saved financing costs.

Table 3: Financing situation of accounts receivable and accounts payable of Gree Electric Appliances from 2017 to 2021

Unit (100 million yuan)	2017	2018	2019	2020	2021
bill receivable	299.63	322.56	359.12	85.13	87.38
accounts receivable	29.61	58.14	77.00	282.26	209.73

Gree Electric Appliances employs a strategy of securing funds through a "payment before delivery" model, majorly allocating these finances for endorsing and discounting bills. This approach is particularly effective as it avoids tapping into the company's own cash reserves, instead maximizing the use of negotiable instruments like bills to minimize financing costs and generate

additional investment income. Moreover, Gree also utilizes a portion of these bills as collateral, which are transferred to upstream suppliers and manufacturers in lieu of payment for goods. This not only eases cash flow pressures for Gree and its supply chain partners but also enhances the efficient circulation of funds, thereby reducing financial risks across the supply chain.

4. Conclusion

In conclusion, the strategic financial approaches adopted by Gree Electric Appliances, as examined in this paper, illuminate a forward-thinking company adept at navigating the complexities of modern financial management within a supply chain context. Gree's innovative use of the "payment before delivery" model, not only for securing funds but also for leveraging these for endorsing and discounting bills, reflects a nuanced understanding of financial instruments and their potential to optimize cash flow and reduce costs. This methodology, avoiding reliance on the company's cash reserves, represents a shrewd utilization of available financial tools to maintain liquidity and fuel additional investment opportunities.

Furthermore, the "sales rebate" model and the "joint-stock region" sales strategy, as implemented by Gree, demonstrate an acute awareness of the symbiotic relationship between a company and its supply chain partners. These models foster a culture of mutual benefit, ensuring that all parties involved, from manufacturers to distributors, are aligned in their goals and rewards. Such strategies not only incentivize increased sales and loyalty among distributors but also enhance the overall efficiency and stability of the supply chain.

The comprehensive financial strategy employed by Gree - encompassing innovative sales models, efficient use of financial instruments, and strategic partnerships - has proven to be a significant factor in its sustained success and growth. This multifaceted approach serves not only to mitigate risks and reduce costs but also to establish a resilient and dynamic supply chain. Gree's ability to adapt its financial strategies in response to market conditions and the needs of its partners is a testament to its leadership and vision in the industry. In essence, Gree's financial management strategies present a compelling case study of how a company can effectively leverage financial tools, collaborative models, and strategic foresight to establish a strong market presence and a robust supply chain. The lessons drawn from Gree's experience are valuable for any company seeking to enhance its competitive edge while nurturing sustainable relationships within its business ecosystem. The success of Gree Electric Appliances underscores the importance of innovative financial strategies in today's complex business environment, highlighting the potential for such approaches to create synergies that benefit all stakeholders involved.

References

- [1] Chen X, Liu C, & Li S. (2019). *The role of supply chain finance in improving the competitive advantage of online retailing enterprises. Electronic Commerce Research and Applications*, 33, 100821.
- [2] Gupta V, & Chutani A. (2020). *Supply Chain Financing with Advance Selling under Disruption. International Transactions in Operational Research*, 27(5), 2449-2468.
- [3] Lei Y, & Huang Z. (2021). *Perfecting and optimizing supply chain finance. China Finance*, 2021(09), 102.
- [4] Luo H, & Wang L. (2021). *The impact of third-party logistics integration on supply chain performance. Management Science Journal*, 2021(03), 448-454.
- [5] Ma H L, Wang Z X, & Chan F T. (2020). *How important are supply chain collaborative factors in supply chain finance? A view of financial service providers in China. International Journal of Production Economics*, 219(01), 341-346.
- [6] Pei Q. (2022). *Benefits of the implementation of Supply Chain Finance. Annals of Operations Research*, 1-33.
- [7] Zhou J, Li P, & Wu D. (2022). *Thoughts and strategies on the development of supply chain finance. China Finance*, 2022(05), 87.