

## Analysis and Evaluation of Jinfeng Wine Financial Strategy

Yueliang Chen

School of Economics and Management, Nanjing University of Science and Technology, Nanjing 210094,  
China

1054639272@qq.com

**Keywords:** Jinfeng Wine, financial strategy, financial analysis

**Abstract:** Chinese rice wine has a long history and is one of the three largest fermented wines in the world. This article mainly selects Shanghai Jinfeng Wine Co., Ltd. as the target to analyze its financing strategy, investment strategy, operation strategy and distribution strategy. The analysis reveals the advantages of Jinfeng Wine's financial strategy: low-cost supplier financing strategy, high-return heavy asset investment strategy, and continuous growth of R&D investment strategy. At the same time, the disadvantages are found: too loose credit strategy, excessive dependence on supplier financing, and lower fixed dividend distribution strategy. In the end, according to the actual situation of Jinfeng Wine, we will put forward appropriate improvement suggestions, hoping to make Jinfeng Wine develop better and faster.

### 1. Introduction

Rice wine is the world's three ancient wines along with beer and wine. Rice wine is characterized by low food consumption, low alcohol content, and nutrient-rich. It is the healthiest wine and has the reputation of China's "national quintessence". Therefore, the competitive advantages of rice wine should be obvious. However, the cruel market is not the case. The production and sales of rice wine accounts for only 4% of the total alcohol in China. Compared with the domestic liquor, beer and wine industry scales, the rice wine industry is relatively weak. The brand value of Jinfeng Wine is 3.299 billion yuan, which ranks among the best in the rice wine industry and has made great contributions to the development of Chinese rice wine industry. With a strategic height, the financial strategy analysis of the companies in the rice wine industry represented by Jinfeng Wine has strong research significance [1].

### 2. Analysis of the development of Chinese rice wine industry

#### 2.1 Status of development of rice wine industry

Rice wine is one of the oldest wines in the world. It originated in China and enjoys the reputation of China's "national quintessence". However, in the statistics of alcohol consumption, liquor, beer, and wine are higher than rice wine. Why is the rice wine as a national wine in the market that has been tepid?

First, due to regional differences, Jiangsu, Zhejiang and Shanghai have become the main consumption areas of rice wine. Secondly, the promotion of rice wine is not enough, causing consumers not to understand rice wine.

In recent years, consumers have paid more and more attention to health, which undoubtedly brings new hope to the development of rice wine. Consumers are increasingly enjoying rice wine, and the geographical restrictions on rice wine are broken. At the same time, new rice wine products are constantly coming to the market. Now the rice wine market is constantly being refined, and a new model of pursuing high quality has been formed.

## **2.2 Challenges facing the rice wine industry**

As the Chinese economy enters the “new normal”, the rice wine industry faces unprecedented opportunities for development, but it also faces challenges.

(1) Competition is fierce. Chinese rice wine industry is mainly concentrated in Jiangsu, Zhejiang, Shanghai and other regions. The number of rice wine production enterprises in this region is huge and the competition is fierce.

(2) The price of raw materials has increased. Raw material costs account for the largest proportion of the company's main business costs, while raw material prices change with market volatility. If the company fails to raise prices or optimize internal management in a timely manner, the company's profitability will be affected.

## **3. Introduction about Jinfeng Wine and analysis of financial strategy**

### **3.1 Introduction about Jinfeng Wine company**

Shanghai Jinfeng Wine Co., Ltd., referred to as Jinfeng Wine, is mainly engaged in the production and sales of rice wine. The company takes the lead in realizing industrial production in the industry, is committed to the research of science and technology, and leads the continuous innovation and development of Chinese rice wine.

### **3.2 Analysis of financing strategy**

Accounts payable in the Jinfeng Wine financing project accounted for a large proportion of liabilities and showed an upward trend. In recent years, Jinfeng Wine is undergoing expansion and renewal of its operation scale and production equipment. It requires a large amount of capital investment in a relatively long period of time. This is related to the company's new growth period. By sourcing the supplier's funds to meet the company's own need, therefore, Jinfeng Wine has generated a large amount of accounts payable during the operation period.

Through the analysis of the financing strategy of Jinfeng Wine, we can conclude that Jinfeng Wine mainly through short-term financing of suppliers, this financing model is lower than the bank loan model, and the financing risk is relatively smaller. Under this financing model, companies need to have higher corporate credit.

### **3.3 Analysis of investment strategy**

We can easily find that Jinfeng Wine has always focused on the core business of the company and has been increasing investment in rice wine technology. This is because Jinfeng Wine is gradually getting rid of the single production base management, and gradually shifting to a new production mode coordinated by the headquarters and subordinate production bases.

Through analysis, we can conclude that Jinfeng Wine has invested mainly in the rice wine technical transformation project in the past three years. This is a strategy to increase investment in non-current assets to produce large quantities of products, thereby contributing to increased income [2]. However, the phenomenon of a sharp increase in accounts receivable due to the large increase in sales needs to be taken seriously, which may lead to huge bad debts of accounts receivable.

### 3.4 Analysis of operation strategy

The ratios used in the analysis are shown in the table 1.

Table 1 Operating capacity ratios

Related ratios	2015		2016		2017	
	Jinfeng Wine	Industry average	Jinfeng Wine	Industry average	Jinfeng Wine	Industry average
Inventory turnover rate	0.70	0.68	0.72	0.66	0.74	0.66
Accounts receivable turnover rate	11.77	11.74	12.39	11.56	11.03	12.22
Fixed asset turnover rate	2.43	1.33	2.66	1.14	1.98	1.32

The inventory turnover rate of Jinfeng Wine showed an upward trend and was always higher than the industry average, indicating that the company's inventory liquidity is rising, the inventory occupation funds are more reasonable, and its short-term solvency is also strong [3].

In 2017, the accounts receivable turnover rate of Jinfeng Wine Industry decreased. Due to the increase in sales volume in recent years, many receivables occurred in Jinfeng Wine, and the collection rate was significantly lower than before, indicating that the liquidity of accounts receivable of Jinfeng Wine is declining. Poor management of accounts receivable will also result in an increase in bad debt risk and financial risk of Jinfeng Wine.

The fixed assets turnover rate of Jinfeng Wine is always higher than the industry average during the period from 2015 to 2017, reflecting the utilization and management level of Jinfeng Wine for fixed assets such as production equipment and factory buildings.

### 3.5 Analysis of distribution strategy

The profit distribution policy of companies has always been the focus of investors from all walks of life [4]. Cash dividends, stock dividends and other distribution methods constitute the distribution form of companies.

Jinfeng Wine adopts a fixed dividend distribution policy. The distribution plan is 0.5 yuan for every 10 shares. The distribution intensity is far lower than the industry average. We can see that the distribution of dividends in Jinfeng Wine is not very large. In the case that companies do not lack money, such distribution is not very favorable for investors. If the company issues cash dividends, investors will think that the company is in good operating condition and worth investing. Also, it will attract more investors.

## 4. Advantages and disadvantages of Jinfeng Wine financial strategy

### 4.1 Advantages of Jinfeng Wine financial strategy

#### 4.1.1 Low-cost supplier financing strategy

The short-term borrowing of Jinfeng Wine has gradually decreased in recent years. If enterprises raise funds through financial institutions such as banks, it will bring high financing costs to enterprises. It can be found that Jinfeng Wine has a large proportion of accounts payable, which indicates that Jinfeng Wine takes the form of purchase, and occupies the supplier's funds to meet the company's own need. Compared with financing from financial institutions such as banks, under this financing strategy, companies have lower financing costs, lower financial risks, and promote the development between enterprises and downstream suppliers.

#### **4.1.2 High-return heavy asset investment strategy**

In recent years, Jinfeng Wine has gradually increased its investment in heavy assets such as the technical transformation of rice wine. Enterprises to increase investment in some heavy assets can expand production scale, produce many products, reduce production costs, and obtain high returns. It can also raise the threshold for entry into the industry and establish a brand image.

#### **4.1.3 Continuous growth of R&D investment strategy**

The R&D expenditure of Jinfeng Wine has shown an upward trend in the past three years, and the proportion of R&D expenditure to operating income is much higher than the average level of the industry. Innovation is the inexhaustible motive force for long-term and sustainable development of the company. Jinfeng Wine must pay close attention to the technology of the rice wine market and firmly grasp the opportunity of technological upgrading to bring the company to the next level. The independent innovation capability of enterprises can enable enterprises to keep up with the times. As a result, the pace of development is far more than other companies in the same industry.

### **4.2 Disadvantages of Jinfeng Wine financial strategy**

#### **4.2.1 Too loose credit strategy**

The competition in the rice wine market is increasingly fierce and the products are updated quickly. Jinfeng Wine has adopted a loose sales model to compete with the same industry. Under this sales model, the number of sales of enterprises has been significantly expanded, and the income of enterprises has increased. However, while recognizing revenues, many receivables have also been formed, which has increased the risks of business operations, bad debt risks and financial risks.

#### **4.2.2 Excessive reliance on supplier financing**

The current liabilities of Jinfeng Wine are above 84%, and the non-current assets are all below 16%. This debt structure reflects a problem: the ratio of current liabilities to non-current liabilities is unreasonable. Jinfeng Wine adopts the “credit purchase” mode for suppliers, enabling the company to receiving the goods first and then paying, so that the company's funds can be turned over in time, resulting in excessive debt. Although the cost of financing by means of corporate credit is relatively low, Jinfeng Wine relies too much on short-term debt financing, which has a large financial risk.

#### **4.2.3 Lower fixed dividend strategy**

We can find that in the past three years, Jinfeng Wine has been implementing a low fixed dividend distribution policy. Compared with the same industry, Jinfeng Wine has a dividend of 0.5 yuan per 10 shares, showing that the distribution of Jinfeng Wine is very low. A lower allocation amount compared to the industry is not conducive to attracting investors.

### **4.3 Suggestions on Jinfeng Wine financial strategy**

#### **4.3.1 Strengthen accounts receivable management**

Jinfeng Wine should strengthen the credit management that is important for accounts receivable, recover funds in time, and reduce the cost of recycling. To this end, Jinfeng Wine needs to pass a series of credit policies, scientifically estimate the bad debt losses, truly disclose the company's profitability, slow down the credit sales policy, and reduce the occurrence of accounts receivable from the source.

#### **4.3.2 Increase long-term debt financing**

Although the cost of current liabilities is lower than non-current liabilities, the operational disadvantage of current liabilities is that companies need to continuously arrange liabilities. It is very likely that the company's cash flow will be difficult to pay current liabilities within the stipulated time, resulting in a decline in credit.

To prevent financial crisis, Jinfeng Wine should increase long-term borrowing. Long-term borrowings have lower capital costs than short-term liabilities. Increasing long-term borrowing can effectively balance the corporate debt financing structure and reduce the financial risks of short-term liabilities.

#### **4.3.3 Formulate a suitable allocation policy**

Jinfeng Wine can divide dividend distribution into cash dividends and stock dividends. Stock dividends can directly bind shareholders and the company's interests, which is conducive to the long-term development of the company. In addition to stock dividends, Jinfeng Wines can also use "product dividends" to improve its relationship with investors. This approach not only allows the company to be more closely connected with shareholders, but also reduces the inventory of the company.

### **5. Conclusion**

With the rapid growth of the domestic rice wine manufacturing industry, more and more enterprises are troubled by the financial situation and development strategy. Therefore, this article takes Jinfeng Wine as an example to analyze its financial strategy. First, this paper finds out the advantages and disadvantages of Jinfeng Wine's financial strategy. Secondly, according to its analysis, the main reasons for these problems are: too loose credit strategy; excessive dependence on supplier financing; and lower fixed dividend distribution strategy. Finally, we put forward appropriate improvement suggestions, hoping to make Jinfeng Wine develop better and faster.

Through the research on the financial strategy of Jinfeng Wine, we can learn from it and take its essence to its dross and help Jinfeng Wine to develop better. At the same time, we hope that other companies in the rice wine industry will understand the importance of the financial strategy and, considering the actual situation, formulate a financial strategy suitable for their own development, thereby promoting the overall development of the rice wine industry.

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