Research on financial risk management under asset-light operation mode

Xingdong Zheng¹, a, Ronaldo Juanatas¹, b, and Jasmin Niguidula¹, c

¹College of Industrial Education, Technological University of the Philippines, Manila, 0900, Philippines;

a zxd861224@126.com, b ronaldo_juanatas@tup.edu.ph, c Jasmin_niguidula@tup.edu.ph

Abstract. As the competition among enterprises becomes more and more fierce, the shortcomings of the traditional operation mode of enterprises begin to appear. They all begin to try the transformation of light assets to reduce the pressure brought by procurement cost or labor cost. Asset-light enterprises focus on product research and development and marketing, and the rest of the business will be completed by suppliers in the form of outsourcing, but the corresponding risks also appear. The capital structure of asset-light enterprises has particularity, which makes it difficult to identify financial risks. How to identify, prevent and control financial risks is the focus of current asset-light enterprises. Taking Li Ning as an example, this paper studies its financial risk management under the asset-light operation, and puts forward targeted measures such as dispersing financing risks, strengthening the control of investment activities in advance, and strengthening the management of operational activities, so as to improve the financial risk management mechanism formulated by the enterprise.

Keywords: Enterprise financial risk; risk control; asset-light model; management measures.

1. Introduction

Social and economic development will permeate people's consumption concept and demand, and gradually people pay more attention to the cost performance, creativity, practicality and other aspects of products. At the same time, the development of the Internet has greatly improved the transparency of product information. In this case, based on the development of brand, pay attention to creative companies have to increase investment in product design innovation, pay attention to the development of research and development field, to ensure their core competitiveness, so that enterprises begin to explore a new business development model conducive to the situation. For the traditional model, the existing inventory overstock, supply and demand imbalance and other problems, enterprises will actively turn to the asset-light operation mode to optimize the integration of enterprise resources, so that enterprises can better adapt to the development of The Times, in line with consumer preferences. Using the advantages of the asset-light mode can play more economic benefits, maintain the healthy order of the market, reasonable and scientific operation will better help the stable development of enterprises. This study mainly adopts the case method to study the application of Li-Ning's asset-light operation mode, carries forward its excellent performance, improves and supplements its dross, lays the foundation for the current enterprise to carry out asset-light transformation, promotes the better transformation of similar enterprises, and promotes the positive, healthy and stable development of society.

The application of asset-light operation mode can greatly release the innovation potential of enterprises, explore more commercial value, and provide no small help for the stable operation and risk resistance of enterprises. Combined with the actual situation of Li-Ning Company, this paper analyzes the risk situation faced by the company in the transformation of asset-light mode and puts forward corresponding suggestions to optimize the disadvantages of the enterprise's risk management system, so that the enterprise can better strengthen the timeliness, accuracy and comprehensiveness of risk management. At the same time, the use of the existing asset-light operation mode and the theory of financial risk management can better show the difference in the application of the theory in practice, enrich the effect of the theory on the current enterprise, and make some improvements to the effect feedback of the current application.
2. Review of domestic and foreign research

There have been studies on the asset-light operation mode of enterprises for a long time, but the different changes and development of the external and internal environment of each country make the application of asset-light operation mode of enterprises have different effects, and the effects are not stable and even have unpredictable effects, among which both positive and negative effects can bring significant risks to enterprises.

From the foreign literature, if the asset-light operation mode is not reasonably and scientifically applied, it will seriously affect the operation state of enterprises. Among them, Tang GL and Gao Y (2016) made a comparative analysis of Chinese enterprises under the asset-light operation mode and the traditional operation mode and found that the enterprises under the asset-light operation mode also had certain shortcomings, and summarized the possible financial risks of the asset-light enterprises, including the difficulty of financing and the difficulty of monitoring the quality of product outsourcing. In view of these problems, enterprises need to take the right medicine and formulate effective optimization measures to reduce the relevant risks of enterprises. For asset-light enterprises with small proportion of fixed assets, it is obviously a pain point that cannot be ignored (Shao and Zhang, 2019). Secondly, Shi Bozhen (2019), by studying the characteristics of the asset-light operation mode, found that enterprises need a lot of capital in the early stage of asset-light operation. If mistakes occur in the process, it will cause a great blow to the enterprise, even bring a huge crisis, and even threaten the life of the enterprise. At the same time, Sun Ying et al. (2020) found that the financing risk under this operation mode has the characteristics of contagion effect.

Many scholars have found that the asset-light operation mode still has certain advantages and highly appraised it through empirical analysis or case analysis. Bourke (2020) compared the operating conditions of asset-light and asset-heavy operation modes of hotels, and found that asset-light hotels would have higher risk-weighted return on assets, but in most financial analysis indicators, the advantages of asset-light operation are not obvious. In terms of domestic research status, there are also many scholars agree with the asset-light operation model. Niu Tiayong and Li Xiaowan (2019) compared the current situation of strategic transformation of various real estate enterprises and found that improving core research and development capabilities, enhancing the ability of enterprises to prevent risks, and reducing unnecessary costs are all routine practices of the asset-light operation mode. Zhou, Li and Wang (2020) also believed that the asset-light operation mode has a positive impact on the risk-taking of enterprises, such as the reduction of the proportion of interest-bearing liabilities, thus effectively reducing the possibility of financial risks.

3. Relevant basic theories

Financial risk refers to the possibility or opportunity of economic loss caused by various unpredictable or uncontrollable factors that cause the financial situation of an enterprise inconsistent with the expected target in various financial activities. It runs through the whole business activities, which are mainly divided into financing risk, investment risk, operational risk, profit distribution risk and so on. If the enterprise can reasonably control the financial risk, and make the normal and stable operation of the enterprise, the enterprise may face the capital chain and other bankruptcy crisis, so the financial risk is one of inevitable and aggravate the risk of the enterprise to prevent, the strength of its prevention determines the vitality of the sustainable development of each enterprise. The key points of financial risk management under the asset-light mode include the following points.

3.1 Prevention of financing risk

Since the fixed assets of the enterprise in the asset-light mode account for a relatively small proportion, and the main assets are composed of asset-light and current assets, if the enterprise can
not provide relatively value-preserved collateral for bank financing, the bank may not lend or loan with the high interest rate, resulting in the increase of financing risk. If the enterprise carries out equity financing, the financing cost will be greatly increased, which will inevitably lead to the increasing of financing risk. Therefore, preventing financing risk is an aspect that enterprises cannot ignore but need to intervene in non-traditional operation mode.

3.2 Attention to operational risks

Enterprises operating in the asset-light mode mainly rely on sufficient cash flow. At the same time, intangible assets account for the largest proportion of fixed assets in the asset-light mode, and their value cannot be estimated stably. They are more vulnerable to change by market development or replaced by homogeneous products, which may lead to unstable performance and other situations. In addition, the risk of outsourcing business under the asset-light model will also be one of the risks of product sales, which will lead to the slow or unable recovery of funds, which will increase the operation risk of the enterprise, so the enterprise has to focus on the risk intervention in this link.

3.3 Control of supply chain risk

One of the characteristics of asset-light enterprises is outsourcing business, and its main support system is the supply chain system, which is also one of the core competitiveness of the enterprise. The selection of suppliers will be the top priority. In the process of cooperation with them, product quality problems and false concealment of suppliers' assets will drag down the overall operation progress of enterprises, making enterprises face risks such as goodwill damage and profit decline. Enterprises should not only focus on the intermediate R&D value-added link but also focus on the control of the outsourcing link of enterprises. They should dispatch professionals or organizations to conduct irregular supervision on the qualification of suppliers, product quality and cooperation progress, so as to effectively prevent the financial risks predicted by enterprises in the outsourcing link.

3.4 Adaptation of financial risk control system

Compared with traditional enterprises, asset-light enterprises focus more on R&D, but this link is uncertain, which is mainly highlighted by long cycle and low success rate. Enterprises should balance the proportion of funds needed for daily operation and funds needed for R&D investment, do a good job in predicting and preventing relevant risks, and establish a relatively perfect financial risk control system that matches the enterprise model. To effectively avoid the occurrence of financial risks caused by the unsuitability of enterprise operation mode.

4. Case study on the financial risk management of Li-Ning Company under the asset-light operation mode

4.1 Case overview of Li Ning Company

Founded in 1990, Li Ning Co., Ltd. is a leading professional sports brand company in China. In 1998, Li Ning established the first R&D center for apparel and footwear product design in China. At present, Li Ning Company has perfect R & D design, manufacturing, brand marketing, product sales and other capabilities, and has built a huge retail distribution network and supply chain management system in China, and gradually become a leading professional sports brand enterprise on behalf of China and the world. As of December 31, 2022, Li Ning Company has a total of 7,603 sales points in China (including Li Ning YOUNG), and continues to expand its business in Southeast Asia, the Middle East and Central Asia, North America and Europe.

From 2008 to 2011, due to the sharp decline in performance, the growth rate of operating income declined year by year for four consecutive years, and even in 2011, the growth rate of operating income was negative, only about -7%. However, due to the inventory overstocking caused by the
performance decline, the capital turnover rate is seriously insufficient, causing enterprises to quickly clear the inventory, accelerate the inventory turnover speed by increasing the factory stores and discount stores, and reduce the pressure on the terminal retailers. Therefore, Li Ning Company lost 1.979 billion yuan and closed 1,821 stores in 2012, becoming the first annual loss since going public in 2004. In 2015, Li Ning Company began to fully implement the asset-light operation mode, and by increasing research and development efforts, optimizing the supply chain, outsourcing production and sales links and other ways, reducing the risk of enterprise inventory overstocking, improving the asset turnover rate, effectively improve the profitability, promote the sustainable and healthy development of the enterprise.

4.2 Financial characteristics of Li Ning Company

4.2.1 Significant money-capital ratio

Under the asset-light mode, current assets are an important part of enterprise assets, among which monetary capital is the guarantee of enterprise operation. On the contrary, with the continuous promotion of the asset-light mode, enterprises will gradually accumulate a large amount of cash flow in the process of operation, which is conducive to the expansion of the business scope of enterprises, play more capital value, and reduce the financial risk of enterprises. It can be seen from Figure 1 that in the progress of capital light of Li Ning Company, the proportion of monetary capital increases year by year, and the accumulation of monetary capital increases year by year.

![Figure 1](image.png)

* Data source: Annual financial report of Li Ning Company

Fig 1. The ratio of monetary funds to current assets of Li Ning Company from 2018 to 2022

4.2.2 Low proportion of fixed assets

In the asset-light mode, if fixed assets account for more than 50% of total assets, it indicates that the enterprise applies the traditional business model; If the proportion is less than 50%, it is considered that the company is in the asset-light mode, and the proportion of fixed assets is less than 30%, it is regarded as a standard asset-light company. In addition, the company can also measure whether it is an asset-light company by looking at the proportion of fixed assets in revenue. If the ratio exceeds 20%, it indicates that the company's operating income is excessively dependent on fixed assets; If the ratio is lower than 20%, it indicates that the enterprise mainly relies on asset-light and belongs to the asset-light operation mode. The line chart of the proportion of fixed assets of Li Ning Company from 2018 to 2022 can be analyzed that Li Ning Company belongs to the standard asset-light mode.

<table>
<thead>
<tr>
<th>Table 1. Fixed assets and total assets of Li-Ning Company from 2018 to 2022</th>
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<tr>
<td>Unit: 100 million yuan</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
</tr>
<tr>
<td>Total assets</td>
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</tbody>
</table>
4.3 Risks and causes of financial risk management of Li Ning Company

4.3.1 Unreasonable financing channels

Enterprises operating under the asset-light mode mainly use commercial credit tools such as accounts payable and notes payable to occupy the funds of upstream suppliers to the maximum extent. Long-term occupation of supplier funds will affect the quality of products, corporate goodwill, and so on. Therefore, enterprises should balance the service life of accounts payable, maintain the relationship between upstream and downstream enterprises, and reduce the possibility of financial risks. As can be seen from the data in Table 2, the amount of accounts payable of Li Ning Company has increased year by year in recent years, but its proportion of current liabilities has decreased, indicating that the debt structure of the company is relatively stable.

The debt scale of Li Ning Company increased year by year from 2018 to 2022, and the growth rate was the most obvious in 2020, because the company is in a period of scale expansion and needs a large amount of funds to maintain daily needs. Moreover, the proportion of short-term debt of Li Ning Company is much higher than that of long-term debt, which may lead to the failure of the enterprise to repay the relevant interest due in the short term and the rupture of the capital chain, which may affect the use of funds and even the operation of the company. Therefore, the unreasonable distribution of debt structure will increase the financial risk of the company.

<table>
<thead>
<tr>
<th>Table 2. Financing situation of Li Ning Company from 2018 to 2022</th>
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<tbody>
<tr>
<td>Unit: 100 million yuan</td>
</tr>
<tr>
<td>2018</td>
</tr>
<tr>
<td>Short-term borrowing</td>
</tr>
<tr>
<td>Long-term borrowing</td>
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<tr>
<td>Accounts payable (including notes payable)</td>
</tr>
<tr>
<td>Other payables</td>
</tr>
<tr>
<td>Total current liabilities</td>
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<tr>
<td>Total non-current liabilities</td>
</tr>
</tbody>
</table>

4.3.2 Relatively high proportion of operating costs and expenses

Compared with traditional enterprises, enterprises under the asset-light mode reduce the input and expenditure of fixed assets, effectively reducing a large number of costs and expenses, so that they are ignored in the total costs and expenses. However, asset-light enterprises are more profitable due to the influence of their brands, so they have to increase their investment in marketing to maintain the loyalty of consumers. It can be seen from Table 3 that the indicators of gross profit margin and net profit margin on sales of Li Ning Company have been increasing year by year, and even the net profit margin on sales has increased as high as 5 percentage points in 2020, but the gap between the two is still not small, indicating that the company has high costs during the operation period. In addition, from the analysis of return on equity and net interest rate on total assets, it can be seen that there is a lot of improvement compared with the base period level on the whole, but in 2021-2022, due to the impact of the epidemic, there are slight fluctuations. Therefore, if enterprises want to further improve their profitability, they need to reduce part of the cost and relieve the pressure of sales performance, otherwise, it is easy to bring certain financial risks.

<table>
<thead>
<tr>
<th>Table 3. Profitability indicators of Li-Ning Company from 2018 to 2022</th>
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<tbody>
<tr>
<td>2018</td>
</tr>
<tr>
<td>Gross margin on sales</td>
</tr>
<tr>
<td>Net profit margin on sales</td>
</tr>
<tr>
<td>Statement of net asset income</td>
</tr>
</tbody>
</table>
4.3.3 Unstable cash flow

Cash flow is a major feature of asset-light enterprises. In order to guarantee operational needs, enterprises make layouts from multiple perspectives of financing activities, investment activities, and business activities to maintain the orderly operation of funds. According to the analysis of the cash flow of Li Ning Company from 2018 to 2022 in Table 4, the cash flow of the company fluctuates in the operating activities and financing activities. Therefore, the company should pay attention to the operating situation and reduce the capital risk brought by the business operation. The second is the stability of financing activities. As an asset-light enterprise, it may not have the reliable and stable collateral of traditional enterprises for borrowing loans, but the financing situation of the enterprise is the basis to ensure the stable operation of the enterprise. The enterprise needs a large amount of funds to pay the daily operation needs and ensure the effective operation and development of the enterprise. According to the cash flow ratio data of Li Ning Company, the short-term solvency of the enterprise is good, but its instability also points out the scope of influence of operating activities and financing activities. The enterprise should ensure the liquidity of funds by balancing the capital distribution of the three activities, relieving the pressure of the use of funds, and stabilizing the speed of capital recovery.

Table 4. Cash flow of Li Ning Company from 2018 to 2022

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
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<tbody>
<tr>
<td>Net cash flows from</td>
<td>11.59</td>
<td>16.72</td>
<td>35.03</td>
<td>27.63</td>
<td>65.25</td>
</tr>
<tr>
<td>operating activities</td>
<td></td>
<td></td>
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<tr>
<td>Net cash flows from</td>
<td>3.43</td>
<td>4.83</td>
<td>5.73</td>
<td>9.92</td>
<td>65.39</td>
</tr>
<tr>
<td>operating activities</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Net cash flows from</td>
<td>2.32</td>
<td>0.66</td>
<td>6.49</td>
<td>5.13</td>
<td>75.96</td>
</tr>
<tr>
<td>operating activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow ratio</td>
<td>54.46%</td>
<td>60.21%</td>
<td>74.26%</td>
<td>55.09%</td>
<td>84.70%</td>
</tr>
</tbody>
</table>

* Data source: Annual financial report of Li Ning Company

4.3.4 Distribution of dividends is easy to cause misunderstanding

The stable distribution of dividends by enterprises is conducive to enhancing investors' confidence and conveying the signal of stable operation of enterprises. As shown in Figure 6, the amount of dividend distribution, profit, or interest repayment of Li Ning Company has increased year by year in recent years, and even the amount of dividend distribution has increased significantly in the middle of 2022. This is because the strength of the company has become stronger since the transformation, and the strength of dividend distribution has become stronger and stronger. However, if the difference between the dividend distribution before and after is too large, investors may be too skeptical of the company. It is easy to cause misunderstanding in the market, which is not conducive to the stable development of the enterprise. Enterprises should ease the fluctuation of profit distribution and reduce the risk of profit distribution.

Fig 2. Line chart of Li-Ning Company's dividend distribution in recent years
4.3.5 The supplier management system is not sound

Although Li-Ning Company has formulated the Supplier Management System to evaluate the cooperation level of suppliers, it lacks measures to prevent the withdrawal risk of suppliers in advance; In addition, the production suppliers of Li-Ning Company focus on several long-term cooperative enterprises, which lacks the atmosphere of fair competition and virtuous cycle, which may make the company unable to effectively reduce costs and expenses, and over-reliance on suppliers will lead to no measures to reduce losses when suppliers have problems. Therefore, the company should improve the content of the supplier management system. Therefore, the enterprise should improve the content of the supplier management system to ensure the quality of suppliers and the methods to deal with subsequent risks.

5. Suggestions on enterprise financial risk management under asset-light mode

5.1 Scientific financing, reasonable diversification of financing risks

Enterprises should not rely on short-term borrowing for a long time, because it may lead to a significant increase in the short-term repayment pressure of enterprises, and financial risks will also increase. Therefore, an appropriate balance of long-term and short-term debt ratios, and the use of a variety of financing channels to disperse financial risks, can alleviate the pressure of corporate debt repayment. At the same time, enterprises can make proper use of the current welfare policy, reasonable use of technology subsidies, financial support, and related welfare, expand the channels of enterprise capital sources, and relatively reduce the cost of financing.

5.2 Strengthen the prior control of investment activities

The key to the smooth operation of an enterprise under the asset-light mode lies in the cooperation and cooperation between upstream and downstream suppliers, so the selection of suppliers is particularly important. The establishment of a supplier screening system, promotes the positive and benign competition of suppliers, and effectively reduces the possibility of supplier problems affecting the business process of enterprises. Strictly controlling the quality of the production products, reducing certain costs is a major way for enterprises to improve profits, dispatched professional management and control personnel to assess the production progress and quality, the quality and effect of production are the basis for future evaluation of suppliers, reduce the unnecessary subjective evaluation of the deviation.

5.3 Strengthen operational activity management

As the value of R&D and marketing in asset-light enterprises is the greatest, a large amount of funds are invested in the development of new technologies and product marketing. However, the long R&D cycle and slow capital recovery make enterprises pay great attention to controlling the future direction of the project and rationally arranging the recovery of cash flow. Speeding up the speed of sales collection or efficient use of their cash flow can reduce the corresponding costs and avoid the financial risks that should not occur. For Li-Ning company in the garment industry, it should conduct research on consumer demand and preference in advance, control the development trend of the market, reduce unnecessary marketing means, and attract consumers with its advantages.

5.4 Profit distribution should be reasonable to stabilize the interests of all parties

The profit distribution policy of the enterprise is not only affected by the current year's business performance, but also according to the situation of the previous distribution policy, reasonable and relatively scientific dividend policy is formulated to achieve the effect of stimulating investment. For example, the shareholding structure of Li-Ning Company is relatively scattered, so the interests of various departments should be reasonably distributed, the multi-dimensional balance should be
maintained, conflicts caused by interests should be reduced, and the maximum profits can be created through cooperation. At the same time, the formulation of dividend incentive policy is to balance the profit distribution between employees and shareholders, ensure smooth communication between the upper and lower levels, and implement long-term and short-term incentive mechanisms for the senior management team and the core talent echelon, stabilize the development mentality of employees, improve the expectation of the future development prospects of the enterprise, create higher performance, and make the orderly development of the enterprise.

5.5 Further improve the financial risk management system

The stability of the supply chain is the premise for the stable development of asset-light enterprises, and strengthening the management and control of upstream and downstream enterprises is an important way to defuse the financial risks of asset-light operations. For example, professionals should be dispatched to conduct regular or irregular spot checks and assessments on the qualification and production capacity of suppliers, reasonably evaluate the production status of enterprises, and examine whether they have fulfilled their respective rights and obligations. Only when enterprises in the supply chain cooperate, can the occurrence of enterprise financial risks be reduced. At the same time, combined with the company's own financial status and recent market changes, modify the relevant financial risk early warning index, and make good use of the update of Internet technology, do a good job in the screening of relevant data, improve the financial risk management system.

6. Research conclusion

Taking Li Ning Co., Ltd. as an example, the paper studies its management of financial risk, and finds that there are some financial risks such as unreasonable financing channels, high operating costs, unstable cash flow, easy to cause misunderstanding in dividend distribution, and imperfect supplier management system. After the transformation, Li Ning Company has been in a state of rapid expansion, and its capital demand is also much higher than before. Therefore, allocating financing tasks reasonably, optimizing debt structure, and ensuring the working capital needs of asset-light enterprises are the top priorities of enterprises.

References


