Financial Analysis and Corporate Strategy
财务分析与公司战略决策

By Kevin Li

Whether you are entering the Chinese market as foreign investors or you are a fast growing Chinese local company, you all need to make different levels of corporate strategy at certain point.

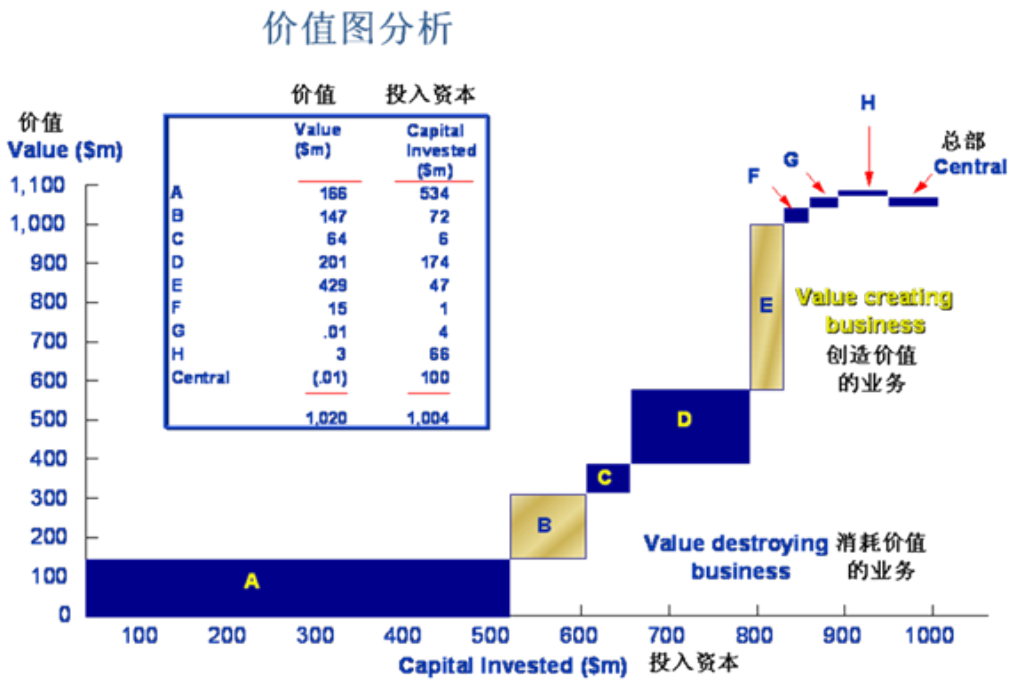
无论您是进入中国市场的外国投资者，还是高速发展的中国本土公司，都需要制定不同层次的公司战略。

Strategy making contents
战略决策内容

The objective of making the corporate strategy is to determine how to enhance the company’s ability to create value. Every single economic activity can affect your company’s value. The following diagram further explained on where the company’s value is being created or consumed:

公司的战略目标是确定如何提升公司的价值创造能力。每一项经济活动都会影响您公司的价值。下图可以帮助我们理解，公司价值是如何被创造或消耗的：

Diagram of company’s value analysis



	价值 Value ($m)	投入资本 Capital Invested ($m)
A	166	534
B	147	72
C	64	6
D	201	174
E	429	47
F	15	1
G	.01	4
H	3	66
Central	(.01)	100
	1,020	1,004

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Strategy developed by the company should be dynamic. Strategic advantages often depend on whether you can anticipate the actions of your competitors and anticipate the changing demands of the customers. Normally, you can classify the company's strategic decisions to different levels, for example:

公司所制定的战略应该是动态的，战略优势往往取决于能否预见竞争对手的行动、预见不断变化的客户需求。通常您可以把公司的战略决策划定为不同的层次，例如可以做如下的划分：

Integrative level 整体性	Confirming company's equity and debt's structure, investing and financing strategies 确定公司的股权与债权结构、投资及融资策略
	Set the company's business structure and the limiting boundaries of what to do and what not to do 设定公司的业务结构，即，做什么和不做什么的边界限制
	Determine the size of the market, mergers, acquisition and the valuation of the company (financial and non-financial) 判定市场规模、兼并和收购、公司价值评估（财务和非财务）
	Determine how to allocate the limited resources to different sections within the company 决定在公司的各个业务中如何分配有限的资源
Competitive level 竞争性	Determine profitability model 决定盈利模式
	Identified the core competencies 确定核心竞争力
Functional level 职能性	Set the objectives and plans for marketing, pricing, and operating activities 设定市场营销、定价、运营等目标和计划
	Identify every process, future plans, and parent company control policy 确定各种流程、预案，母子公司管控

Each strategic decision-making process, it's also a type of financial and non-financial information analyzing process. For example, to determine the company's profitability model, firstly you need to analyze the sources of income and profits and the income structure; the market's overall volume and the customers' ability to earn revenue, the proportion between the company's core products and products combination, the product cost's structure and the changing trends, the human resources index, and etc.

每次的战略决策过程，也都是一系列财务信息和非财务信息的分析过程。例如，要决定公司的盈利模式，需要先分析收入和利润的来源以及收入结构；市场的总体容量和客户群获利能力；公司的产品组合与核心产品比重；成本费用的结构和变动趋势；人力资源指数等。

Financial Analysis Purposes 财务分析目标

All companies will go through 4 different stages of development which are start-up stage, growth stage, maturity stage, and regenerating period. Different stages focus on different financial analysis aims. To be more specific, the start-up period should concern about the business model, growing period should concern about ability to growth, during the maturity period, it should concern about profitability and lastly, regenerating period should concern more about the financial risk level.

公司在不同发展阶段，初创期、成长期、成熟期、再生期，应侧重不同的财务分析目标。具体来说，初创期应关注商业模式、成长期关注增长能力分析、成熟期关注获利能力、再生期关注财务风险水平。

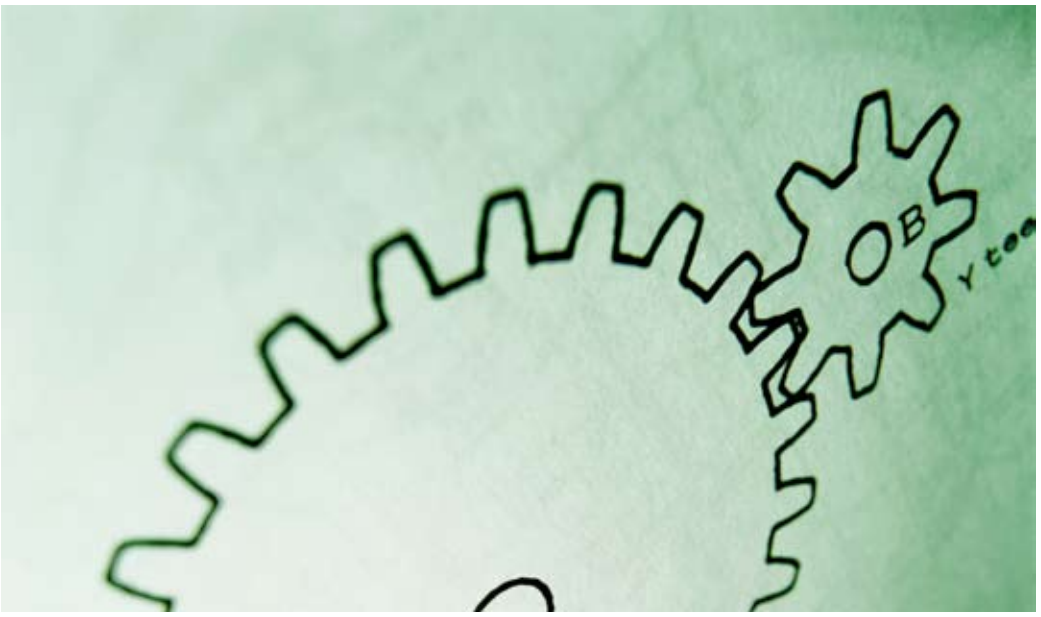
For the foreign companies which are entering China for the first time, it's important to focus on Chinese laws, the industry standards, the cultural differences and other factors' effect on business model and return on investment period. When making decisions, companies should fully consider the uncertain factors in the policy implementation level. As for the fast growing Chinese local companies, they should be focusing on historical issue and its effect on company's merger and acquisition financing, IPO Listing, and healthy growth during the growing stage.

对于刚进入中国的外资公司，在初创阶段需要重点分析的是中国的法律和行业规范、文化差异等因素，对商业模式和投资回收期的影响，制定决策时应充分考虑在政策执行层面的不确定因素。而对于快速发展中的中国本土公司，成长期时关注的重点，则应放在潜在历史遗留问题对公司并购融资、IPO上市、以及健康持续增长的影响。

The management of the company will often want to shift the focus of the strategy towards sales, customer service and business process management. In order to make the accurate and timely strategic decisions when facing many different business opportunities, the company needs to perform a financial analysis regularly. We believe you should at least focus on six different capacities such as solvency, operating, profitability, sales, growth and control capacity.

如果公司的管理层希望公司的战略重心转向对销售、客户服务、及业务流程的管理。那么为了便于在面对各种商业机会时，能够准确、及时的做出适合的战略决策，就需要在日常工作中定期进行财务分析。我们认为至少应该关注偿债能力、营运能力、盈利能力、销售能力、发展能力、控制能力这六大类的财务分析内容。

The operation of the company is not only about calculating the product's profit, quarterly profit, and the yearly profit, but also it's about the



company's brand, long term planning and the future development analysis and decision making.

公司的管理决策一般已不局限于传统的单品利润、季度利润、年度利润的计算，而是对公司品牌效应、长远规划、发展前景的分析和决策。

For example, high profits may not come from products with high added value, but by controlling cost to improve the individual product's profit, thereby enhancing the company's overall profit. Cost control is not just about controlling the purchase price of raw materials and the manufacturing overhead cost, but also it includes administrators capital cost control and plant equipment depreciation control. Without ongoing financial analysis, controlling the cost of these elements within a reasonable range will be difficult to achieve.

例如，高利润可能不是来自产品的高附加值，而是通过成本控制来提高产品的单项利润，从而提高企业的综合利润。成本控制不单单是对产品原材料的采购价格的控制和生产中消耗的控制，还包括管理人员成本的控制及厂房设备等折旧的控制。能够将这些要素控制在合理的范围，没有持续的财务分析是难以实现的。

Financial Analysis Topics
财务分析主题

Through analyzing the financial statements, it allows you to better understand the company's profitability capacity level, high or low solvency and the size of the operational capacity. Thus, it allows you to further understand the level of income after investment and the level of risks involved. According to the information, a company can make decisions about its line of credit, interest rate, payment condition and etc.

通过财务报分析可以使您了解公司获利能力的高低、偿债能力的强弱及营运能力的大小，进而了解投资后的收益水平和风险程度，并据此决定其授信额度、利率水准和付款条件等。

Here is an important question to consider, under different circumstances, which performance indicators should you be focusing on? There are three main processes underlying beneath the business operation. They are Order→Cash, Stock→Cash, Purchase→Cash, we think that management should at least focus on these topics under financial analysis topic:

什么情况下该关注哪些指标是一个需要仔细考量的课题。在公司业务运营中的三大主流程，订单——>现金、库存——>现金、以及采购——>现金，例如我们认为决策者通常可以关注这些财务分析主题：

- Which client has the most accounts receivable? How are the structures of the accounts receivables under each department? Compare to last accounting period, was there any increase or decrease?

哪些客户的应收账款最多？各部门负责的应收账款结构是怎么样的？与上期同比是增长了还是下降了？

- Compare the current period's profit to last period's profit, how's the condition? The main point is which department causes the final result to change?

本期的利润情况与上期相比情况如何？主要是因为哪个部门的业绩变化导致了结果的出现？

- Under the current period, what are the expenses over 10000 RMB? The costs are mainly spent on which department?

本期大于10000元的费用有哪些？这些费用主要花在了哪些部门上？

- Look at the sales amount under the operating and non-operating section, what are the changes?

主营业务和非主营业务的销售变化情况如何？

- Which materials have the most volatile prices? Who are the suppliers of these materials?

采购价格波动最大的物料有哪些？这些物料主要由哪些供应商供应？

- Which material use up the most capital funds in the warehouse? Where are the materials allocated to? Which warehouse?

Financial performance indicators **财务分析指标**	Formulas **公式**	Signs of financial crisis **财务危机征兆**
Current ratio 流动比率	Current asset/current liabilities 流动资产/流动负债	Reduced to below 1.5 降低到1.5以下
Asset liability ratio 资产负债率	Total liabilities/Total assets 负债总额/资产总额	Significant increase or increase than 60% 大幅度上升或超过60%
Operation-to-debt ratios 经营债务比率	(Accounts receivable + notes receivable)/Net sales （应收账款＋应收票据）/月销售额	Close to or more than 4 times(empirical data) 接近或超过4倍（经验数据）
Rate for long term assets 长期资产适合率	(Equity + long term liabilities)/ long term assets （权益＋长期负债）/长期资产	Dropped below 1 降低到1以下
Total asset turnover 总资产周转率	Net sales/Average total assets 销售净额/平均总资产	Significant decrease 大幅下降
Regular income to equity rate 权益经常收益率	Regular income/Average total equity 经常性收益/平均所有者权益	Significant decrease or negative numbers 大幅下降或为负数

库存中占用资金最多的物料有哪些？都分布在哪些仓库？

●How’s the stock turnover condition?

物料的周转情况如何？

Financial Analysis’ importance is self-evident; it’s a necessary process under decision making. We can use Du Pont analysis, radar diagram and all of the other different financial analysis tools to achieve the information that’s needed for decision making by the management level. However, these analyses are often “great falls + small iterative” style. They should be long-term, ongoing and flexible enough to be adjusted at any time.

在这种决策需求下，财务分析的重要性不言而喻。我们可以利用杜邦分析、雷达图等不同的财务分析工具，获得公司管理层决策时所需要的信息。但这种分析工作往往是“大瀑布＋小迭代”式的，并应该是长期的、连续的、随时调整的。

Some signs of the financial crisis can be prevented and early adjustments to the strategic goals can be done. For example:

有些财务危机征兆可以提前预警，以便及早做出战略调整，以防患于未然。例如：The external environment and the internal conditions are different for every company. The companies have to select different financial indicators from different stages and the corresponding threshold according to the companies’ strategic development plan.

每家公司所处的外部环境、内部条件都不同，还需要根据公司的战略发展规划选择不同阶段的财务指标和对应的阀值。

Let’s use the rate for long term assets as an example; it can monitor the company’s capital structure and capital chain. Overall, it considers the company’s ability to pay debt and the capital turnover rate, living within the companies’ means. Some of the reasonable capital structures are current asset compares with current liabilities, and long term asset compares with long term debt. If the company is in good condition but the debt is too high, the investors can receive a higher rate of return by using financial leverage.

以长期资产适合率为例，可监控公司的资金结构与资金链。并从总体上考虑公司的负债承受能力和资金周转效率，量入为出。比较合理的资金结构是流动资产与流动负债配比，而长期资产与长期负债相配比。若负债比率过高，而公司状况良

好，可通过财务杠杆作用使投资者获得较高的收益率。

Collecting and Searching for Information
信息采集与挖掘

As management of the company, each strategic decision will require a big amount of financial and non-financial information analysis. The analysis process will require the management to look at the quality of the information such as timeliness, completeness, consistency, understandability and continuity. The management also has to see does the information have any impact on sales trends, business plans, and capital budget.

作为公司管理层，您做出的每项战略决策，往往都需要分析处理大量的公司财务信息和非财务信息。信息的及时性、完整性、一致性、可读性、连续性，是影响销售趋势、营业计划、资本预算等一系列决策分析质量的关键因素。

To search for the valuable information from a mass amount of information requires the support of IT systems. For example, executive support system (ESS) can assist senior managers to complete their profit planning. Decision support system (DSS) helps middle level managers to complete pricing and profit analysis. Management information system (MIS) helps middle managers in controlling inventory. Lastly, expert system (ES) can help with portfolio management. (Detailed information on company's IT planning and related topics will be discussed in a different article.)

从海量信息中及时挖掘出有价值的数据，需要IT系统的支持。例如高管支持系统ESS可辅助高层经理完成利润计划，决策支持系统DSS帮助中层经理完成价格和盈利分析，管理信息系统MIS帮助中层经理控制存货，专家系统ES协助进行投资组合管理等。（关于公司IT规划及财务信息化的相关课题，我们将另外著文研讨，这里暂不展开。）

Conclusion
总结

Overall, before you make any future business operating model and strategic decisions, you have to make the necessary financial analysis. The analysis should cover business models, value chains, capital investment plan and the size of the dividends pool. It also should cover the return on investment period, product pricing, cash flow budget analysis, profitability analysis, the investment exit costs and etc.

总体而言，您对公司未来运营模式和解决方案进行战略决策前，应该先进行必要的财务分析。包括分析商业模式与价值链、资金投入计划、股东利润大小、投资回收期与产品定价、现金流的预算分析、盈利回报分析、投资退出成本等。

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