

Analysing the OPM Strategy Model of Home Appliances Industry

——Taking Gree Electric Appliances as an Example

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Abstract: Gree Electric has significant competitive advantages and high business credit in the same industry, which not only provides a favourable environment for the operation of its OPM strategy, but also increases the working capital management level of Gree Electric through the implementation of OPM strategy. This paper analyses the three aspects of the implementation conditions, implementation methods and implementation effects of Gree Electric's OPM strategy with the method of case study, and finally obtains corresponding insights from the practical application of Gree Electric's OPM strategy to provide experience for other home appliance enterprises that are about to implement or in the process of implementing the OPM strategy.

Keywords: OPM strategy; Gree Electric Appliances; financial flexibility

1. The Conditions for the Implementation of the OPM Strategy of Gree Electric

The essence of OPM strategy is to borrow funds from upstream and downstream enterprises to help the enterprise develop. The reason why the upstream and downstream enterprises can accept such borrowing or “taking up” mainly relies on the strong competitive advantage and leading position of the enterprise in the industry that implements the OPM strategy, and the favourable conditions of the leading enterprise in the industry such as its scale of operation will also bring high commercial credit. These favourable conditions promote the implementation of OPM strategy. Gree Electric is such a company, so this paper uses the Porter's Five Forces model to sort out its competitive advantages in various aspects.

1.1 Threat of Potential Entrants

China has always proposed that enterprises should take the road of independent innovation, China has introduced a number of relevant policies to encourage the development of enterprise innovation. Over the years, Gree Electric has always been committed to the field of air conditioning and truly realised the “mastery of core technology”. Through the unwavering development of technological innovation, absorbing and training a large number of outstanding research and development personnel, while mastering the industry's leading technology, will be the industry's other enterprises behind. Therefore, for potential entrants, the need for more advanced, more core technology and a certain degree of differentiation of the competitive advantages of air-conditioning market “A share of the pie”.

1.2 Threat of Substitutes

As far as the basic function of air conditioning is concerned, central heating, gas or electricity can also be used to achieve the effect of heating. The fan can also be used for cooling, but the cooling efficiency of the fan is far lower than that of the air conditioner, can not be in a short period of time to make a larger space are to achieve the effect of cooling. In this way, despite the emergence of air conditioning substitutes, but if the enterprise will focus on technological innovation and product differentiation to establish competitive advantage, then the substitutes still do not constitute a threat. In response to the risks posed by substitutes, Gree Electric can minimise them through its innovation and research and development of core technologies.

1.3 Competitors in the Same Industry

Gree Electric's adherence to self-innovation and continuous scientific and technological research and development is a prerequisite for it to become a core technology owner in the field of air-conditioning. In recent years, Gree Electric for sales channel reform so that the enterprise has to keep up with the Internet era of marketing means and methods.

1.4 Consumer Bargaining Power

With the development of human civilisation and society, the Internet has come into people's daily life, and people can place orders directly by watching live broadcasts of anchors, as well as shopping on other e-commerce platforms such as Tmall and Jingdong. Today, a variety of consumer channels have emerged, consumers can choose and multiple price comparison, so the air conditioning market has changed from a seller's market to a buyer's market, the consumer's autonomy to choose more and more hair, its bargaining power is stronger.

1.5 Bargaining Power of Suppliers

Gree Electric's position in the industry is sufficient to enable it to take the initiative in choosing raw material suppliers, which means that Gree Electric has a strong bargaining power with its suppliers. In the supply of raw materials, each kind of raw material Gree Electric Appliances has chosen to be provided by about three suppliers, so as to ensure the stability of the raw material source channel. In this case, the suppliers will compete with each other, and Gree Electric naturally grasps the negotiation opportunity and more right to speak, which further strengthens the bargaining power of Gree Electric's suppliers.

2. The Operation Mode of Gree Electric's OPM Strategy

The main means of implementing OPM strategy of Gree Electric is to extend the time of paying suppliers, collect distributors or consumers in advance or accelerate the turnover period of receivables. In addition, Gree Electric Appliances has consolidated its competitive advantages by continuously promoting the reform of sales channels, actively carrying out diversified strategic layout and other measures to safeguard and promote the implementation of its OPM strategy.

As a leading enterprise in the home appliance industry, Gree Electric Appliances has a large scale of operation, masters the core technology of the industry and possesses a high degree of social acceptance and consumer trust, so it has more commercial credit in the value chain. Using its own commercial credit and brand advantage, Gree Electric can easily win the trust of suppliers and distributors as well as consumers. In the procurement of raw materials, Gree Electric has a stronger voice, and can obtain “free” funds for business development by postponing the payment of goods to a later date. In the cooperation with dealers, Gree Electric, by virtue of its own advantages and position, takes the method of collecting payments in advance to occupy the funds of dealers, to improve the efficiency of the enterprise's own funds, and at the same time as far as possible in the shortest possible period of time will be the receivables, to improve the speed of capital recovery. Based on this, Gree Electric completed its own development through the OPM strategy and promoted the subsequent application of the OPM strategy to achieve a virtuous cycle.

3. The Effect of the Implementation of the OPM Strategy of Gree Electric Appliances

3.1 Financial Resilience Analysis

Bai Zhaoli and Yang Bangwen found that there is a certain link between the implementation of OPM strategy and financial elasticity of enterprises, and there is a positive correlation between the two, i.e., the more effective the implementation of OPM strategy is, the stronger the financial elasticity of the enterprise is [1]. This paper combines the relevant research of Bai Zhaoli et al. and selects the three indicators of financial elasticity, namely, cash flow ratio, cash reinvestment ratio, and capital acquisition rate, to evaluate the implementation effect of OPM strategy of the case enterprise^[2].

Table 1 Financial resilience metrics for Glacier 2018-2022

	2018	2019	2020	2021	2022
Cash flow ratio	13.88	1.06	11.70	17.05	17.63
Capital acquisitio	475.47	33.08	423.97	591.95	700.98

Source of data: collated calculations from Glacier Electric Appliances Annual Report 2018-2022.

Table 1 is obtained by selecting the relevant data in the financial statements of Gree Electric in the past five years, and through further analysis, it can be seen that Gree Electric has a large fluctuation in cash flow ratio, cash reinvestment rate and capital acquisition rate between 2018 and 2022, which all show the trend of first sudden decline and then surge.

From the data in the table, it can be seen that Gree Electric's cash flow ratio increased from 13.88% to 17.63% in five years, during which Gree Electric continued to implement OPM strategy to manage working capital and the implementation effect was improved. However, the firm's cash flow ratio was only 1.06% in 2019, which means that the financial resilience of GLG was on a downhill slope between 2018 and 2019.

In the past five years, Gree Electric's capital acquisition ratio has performed well except for "bottoming out" in 2019, and the value of this indicator is greater than 1 and far more than 1, which indicates that Gree Electric has the ability of self-sufficiency in capital, and is able to satisfy the needs of enterprise expansion through daily production and operation, with low dependence on external borrowing.

3.2 Analysis of Financial Indicators

The implementation of the OPM strategy will have a corresponding impact on the financial statements of the enterprise, so the degree of effectiveness of the implementation of the OPM strategy can also be analysed according to certain indicators in the financial statements^[3]. Next, this article will analyse several indicators from the annual report of Greeley Electric Appliances on its residence.

First of all, judging from the trend of accounts receivable and accounts payable, the level of accounts payable has stabilised at a higher level in the last five years compared to before 2018. In addition, probably due to the relationship with partners, accounts receivable rose slightly, and the enterprise is relatively speaking conservative in terms of the occupation of downstream customers' funds. Secondly, the net cash flow from operating activities in the cash flow statement has remained stable over the past five years, except for the impact of the epidemic, and has not seen a sustained upward trend. Finally, from the point of view of the income statement, operating income and net profit two indicators are table did not show a large degree of volatility, the trend of change is relatively smooth. Overall, the effect of the implementation of OPM strategy of Gree Electric Appliances is relatively stable, with the gradual development of the enterprise there is a certain upside.

4. Gree Electric OPM Strategy on the Inspiration of the Home Appliance Industry

4.1 Ensuring a Reasonable Ratio of Interest-Free Debt

The most obvious advantage of the OPM strategy is that it brings enterprises more convenient and lower-cost financing channels, enabling them to reduce the interest expenses incurred due to borrowing from financial institutions. However, because of this, enterprises are prone to gradually become dependent on the interest-free funds brought by OPM strategy, which ultimately leads to a high proportion of interest-free liabilities and an imbalance between interest-free liabilities and interest-bearing liabilities. Therefore, in order to diversify the financial risk, enterprises should increase the source of funds channels, balance the game and the proportion of non-interest-bearing liabilities, to improve the financial security of the enterprise.

4.2 Establish Long-Term Cooperation with Upstream and Downstream Enterprises

In the long run, this long-term occupation may easily evolve into over-expression, which may lead to a break between the enterprise and its upstream and downstream partners. Therefore, in order to achieve sustainable development, enterprises should aim at long-term co-operation, share more relevant information resources with upstream and downstream enterprises and promote the overall value of the enterprise.

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