

# Analysis of Financial Performance of Yunnan Baiyao Group Co.

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**Abstract:** Yunnan Baiyao Group Co., Ltd. has been actively expanding its business territory and product lines, led by its diversification strategy, thus achieving remarkable financial results. The company has also used scientific asset management strategies to optimize the allocation of resources and enhance the efficiency of asset utilization, while efficient operations have provided solid support for its diversified growth. However, the implementation of a diversification strategy also introduces specific financial risks and challenges. Increasing financial pressure and intensifying market competition have gradually emerged, which require Yunnan Baiyao Group Co., Ltd. to continuously improve its financial structure and strengthen risk management to ensure the durability and profitability of its strategy. This article not only comprehensively analyzes the financial performance of Yunnan Baiyao Group Co., Ltd. in implementing its diversification strategy, but also deeply discusses the challenges faced by the group and its corresponding response strategies, which provides valuable reference and far-reaching insights for other enterprises in adopting similar strategies.

**Keywords:** Diversification strategy; Yunnan Baiyao; Financial performance

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## 1. Introduction

Since its establishment, Yunnan Baiyao Group Co., Ltd. has been dedicated to the research and manufacture of traditional Chinese medicines, rooted in the deep soil of traditional medicine. In the face of increasingly fierce market competition and evolving consumer demands, the group has keenly embarked on a diversified business strategy. The group has carefully constructed a framework for parallel expansion of horizontal and vertical diversification<sup>[1]</sup>. While insisting on its leading position in the pharmaceutical industry, Yunnan Baiyao Group Co., Ltd. has boldly entered into new fields such as daily-use chemicals, healthcare products, and foodstuffs, which has successfully opened a new chapter for the company's rapid growth. Under the strong promotion of the diversification strategy, the financial performance of Yunnan Baiyao Group Co., Ltd. has shown a significant increase, which not only consolidates its market position but also lays a solid foundation for the continued

prosperity of Yunnan Baiyao Group Co. The implementation of this strategy not only demonstrates the market insight and strategic wisdom of Yunnan Baiyao Group Co., Ltd. but also foretells its broad prospects for future development.

## **2. Significance of the study**

In today's globalized and competitive business environment, many enterprises are pursuing diversification, so the study of the case of Yunnan Baiyao Group Co., Ltd. has an important reference value for other enterprises to formulate diversification strategies. This paper can also provide academics with an enterprise-specific case study to enrich and improve related theories and research methods. By analyzing the financial performance of Yunnan Baiyao Group Co., Ltd. in the process of diversification strategy, this study can more accurately grasp the link between the financial achievements of enterprises and diversification strategy, provide key empirical support for the relevant theories, and provide a more systematic and scientific orientation for enterprises to formulate financial strategies <sup>[2]</sup>.

## **3. Analysis of the financial performance of Yunnan Baiyao Group Co.**

### **3.1. Company profile**

Yunnan Baiyao Group Co., Ltd. is a famous Chinese pharmaceutical company founded in 1907 and headquartered in Kunming, Yunnan Province. The company's main business is the production of Chinese medicinal preparations, covering a wide range of areas such as the digestive system, cardiovascular system, respiratory system, and so on. Over the years, Yunnan Baiyao Group Co., Ltd. has earned a good reputation in the domestic and international markets with its rich pharmaceutical experience and high-quality products.

In the journey of promoting a diversification strategy, Yunnan Baiyao Group Co., Ltd. has also made remarkable achievements <sup>[3]</sup>. Beyond the traditional Chinese medicine preparation field, the company has steadily entered into the emerging fields of cosmetics, healthcare products, medical devices, and so on. This diversified expansion not only broadens the market boundary but also increases the profitability of the company. Such diversified expansion not only broadens the market boundary but also adds to the company's profit potential and growth momentum.

### **3.2. Current state of the industry**

Yunnan Baiyao Group Co., Ltd. is one of the most reputable proprietary Chinese medicine brands in China and has gained wide recognition for its production and sales of valuable medicines. Over the years, Yunnan Baiyao Group Co., Ltd. has been adopting a diversification strategy in an attempt to expand its business areas, scale, and profitability. However, under the impetus of the diversification strategy, there are some problems in the operation status of Yunnan Baiyao Group Co., Ltd. and the growth rate of sales revenue of Yunnan Baiyao Group Co. According to the company's annual report, the growth rate of sales revenue of Yunnan Baiyao Group Co., Ltd. has slowed down year by year in recent years. This is mainly because the company's efforts to expand its business areas have not yet resulted in the expected growth and it is facing a highly competitive market environment. The company's relatively small market share in some of the new business areas resulted in weak overall sales growth.

### **3.3. Solvency analysis**

#### **3.3.1. Short-term solvency analysis**

Observations on the current ratio of 3.790, 4.649, 3.150, 3.578, 2.631, 2.851 for the years 2018–2023 and the quick ratio of 2.938, 2.428, 2.448, 2.919, 2.042, 2.345 for the years 2018–2023 reveal a dynamic pattern of increasing and then decreasing, while the quick ratio shows a more complex picture of ups and downs, that is, a tendency to fall at first, then rise, and eventually fall again <sup>[4]</sup>. Fluctuations in these financial indicators undoubtedly have a significant impact on the ability of companies to service their debt. Such fluctuations can stem from a multitude of factors, including fluctuations in market conditions and adjustments in a company's business strategy. To maintain reliable solvency, companies need to closely monitor fluctuations in these key financial indicators and implement effective management measures to address potential risks.

#### **3.3.2. Long-term solvency analysis**

For Yunnan Baiyao Group Co., Ltd., the long-term solvency of the company can be initially assessed through the published equity ratio data. This ratio is not only a core indicator for assessing solvency, but it also reveals the level of protection of the company's shareholders' equity relative to the interests of creditors, providing an important guideline for investors and creditors in terms of financial security. By observing the provided table, it can be noticed that the equity ratio of Yunnan Baiyao Group Co., Ltd. has shown dynamic fluctuations over the past few years. Specifically, between 2018 and 2023, its ratio peaked at 0.440, while the valuation dipped to 0.303, showing significant volatility. Such volatility may stem from changes in the financial status, capitalization, and operational strategies of Yunan Baiyao Group Co., Ltd. However, it is worth emphasizing that equity ratios only provide a limited perspective on long-term solvency. Other financial ratios and indices are also needed to obtain a more comprehensive understanding. Therefore, when looking into the long-term solvency of Yunnan Baiyao Group Co., Ltd., it is important to consider several factors such as its profitability, cash flow dynamics, and debt structure in parallel <sup>[5]</sup>.

On balance, although Yunan Baiyao Group Co., Ltd. presents certain challenges in terms of its ability to service its long-term debt, there are still several dimensions that need to be considered to accurately assess its long-term financial health. Although Yunan Baiyao Group Co., Ltd.'s long-term debt servicing capacity has maintained a low gearing ratio in most years, indicating a sound financial structure, the ratio increased to 30.56% in 2020, highlighting the increased pressure on debt servicing in that year. The volatility of the equity multiplier also hints at the instability of the company's use of financial leverage, which may pose additional financial risks. In addition, the decline in the equity ratio may have reduced creditor protection, while the presence of market and operational risks may also have an impact on debt servicing capacity. Nonetheless, it is difficult to fully assess a company's solvency based on only two indicators, the gearing ratio and equity multiplier, which need to be considered in conjunction with other factors, such as profitability, cash flow position, and debt structure.

### **3.4 Analysis of operating capacity**

Yunnan Baiyao Group Co., Ltd. is facing a decline in operational efficiency in 2023, which is undeniably an important operational warning. From the slowdown in inventory turnover to the decrease in accounts receivable turnover to the decline in total asset turnover, key indicators are revealing deep-rooted problems that may exist in the company's key operational areas, including inventory management, capital recovery, and asset utilization

strategies <sup>[6]</sup>. To improve this situation, Yunnan Baiyao Group Co., Ltd. must begin to strengthen inventory management to enhance its sales conversion efficiency; intensify the collection of accounts receivable to ensure the timeliness of payment; and optimize the allocation of assets to enhance their utilization efficiency. Only in this way can Yunnan Baiyao Group Co., Ltd. maintain and strengthen its competitiveness in the market while improving its operating capacity.

### **3.5. Profitability analysis**

Yunnan Baiyao Group Co., Ltd.'s gross profit margin on sales in 2023 remains stable, but shows a slight downward trend compared to 2022, reflecting the pressure the company may encounter in cost control and product pricing. This change not only reveals the potential impact of intensifying market competition and rising raw material costs on gross margins but also highlights the challenges faced by the company in the implementation of its diversification strategy. With the continuous broadening of business areas, the differences in gross profit margins of different business segments and the exploration of new business profit models may jointly contribute to the fluctuation of the overall gross profit margin. In the face of fierce market competition and increased R&D investment and marketing expenses, the company has also encountered considerable difficulties in boosting net profit, as evidenced by the fluctuating decline in net sales margin <sup>[7]</sup>. The declining trend of return on net assets and return on total assets also reveals the company's problems in capital utilization efficiency and asset utilization, which may be related to the company's resource allocation and asset management in the process of diversification. In summary, Yunnan Baiyao Group Co., Ltd. faces multiple challenges to its profitability under its diversification strategy and needs to optimize cost control, strengthen the construction of profitability models in new business segments, improve the efficiency of capital utilization, and rationally allocate resources to cope with the ever-changing market environment.

### **3.6. Development capacity analysis**

Analyzing the annual growth rate of revenue, the financial performance of Yunnan Baiyao Group Co., Ltd. during the period from 2018 to 2023 exhibits volatility. Observing the period, while the company has achieved revenue growth in certain years, the increase appears to be erratic. This volatility in revenue growth may map the pressure on Yunnan Baiyao Group Co., Ltd. in the highly competitive market environment, or it may be an outward manifestation of fluctuations in the company's internal business activities.

The trend in attributable net income also shows some volatility. In particular, there was a more pronounced decline in mid-2020, which suggests that the company may have faced greater operational pressure in certain periods.

In terms of gross profit, it shows a slow growth trend from 2018 to 2021, but there is a certain decline in 2021, followed by a relatively large increase in 2023, and the overall fluctuation that occurs, to a certain extent, indicates that the profit aspect of Yunnan Baiyao Group Co., Ltd. has been affected.

## **4. Problems in the financial performance of Yunnan Baiyao Group Co., Ltd. under the diversification strategy**

### **4.1. Decrease in the profitability of Yunnan Baiyao Group Co.**

The diversification strategy has led to the expansion of product lines and market scope of Yunnan Baiyao Group Co., Ltd. which has increased the operating costs and business risks of Yunnan Baiyao Group Co., Ltd. For

example, Yunan Baiyao Group Co., Ltd. launched a series of healthcare products, but the market competition was fierce and profit margins were small. Yunan Baiyao Group Co., Ltd. also faced problems with market adaptability and brand awareness when entering the international market, which resulted in lower-than-expected sales.

#### **4.2. Lower efficiency of financial assets of Yunnan Baiyao Group Co., Ltd.**

In the field of inventory management, according to the analysis of the 2021 financial report of Yunnan Baiyao Group Co., Ltd., the amount of inventory is about 8 billion yuan, which is a slight increase compared to 7.6 billion yuan in 2020. However, a simple increase in inventory does not directly represent an improvement in inventory management effectiveness. The indicators centered on inventory turnover days and inventory turnover ratio can more truly reflect the effectiveness of inventory regulation. To improve inventory management, Yunnan Baiyao Group Co., Ltd. needs to implement strategies to ensure the consistency between inventory and market demand, and to reduce the additional burden of excess or backlogged inventory<sup>[8]</sup>.

#### **4.3. Financial leverage not fully utilized**

The above observation is supported by the financial report of Yunan Baiyao Group Co., Ltd. for the first half of 2022, which shows that the company's gearing ratio is only 45%, a metric that is significantly lower than the average for the pharmaceutical industry, reflecting a low level of debt and a relatively sufficient base of own capital. The conservative financial strategy of Yunnan Baiyao Group Co., Ltd. is particularly noteworthy in the context of other companies in the industry with average gearing ratios of 55% to 60%. In terms of return on equity (ROE), while its 18% indicates that its profitability is in a healthy state, Yunan Baiyao Group Co., Ltd. seems to have more room to realize its profit growth potential than its industry peers who have achieved ROE of around 30% by taking advantage of financing. Ltd. seems to have more room to fulfill its profit growth potential.

### **5. Strategies to enhance the financial performance of Yunnan Baiyao Group Co.**

#### **5.1. Focusing on business quality and promoting profitability**

Strengthening risk governance is a closely related strategy for optimizing corporate operations. Under the diversification strategy, the company will inevitably be exposed to a wider range of market challenges and competitive environments. In this regard, Yunnan Baiyao Group Co., Ltd. needs to build a comprehensive and detailed risk management framework covering the key areas of market risk, financial risk, and operational risk. Critically, the company should start to strengthen its risk assessment process, develop a detailed risk management strategy, and build a cutting-edge risk early warning mechanism. Together, these initiatives will enable the company to identify and predict potential risks from a forward-looking perspective, detect risks promptly from a keen perspective, and adopt effective strategies to address risks head-on, significantly enhancing the company's ability to withstand operational risks and safeguard its financial health<sup>[9]</sup>.

#### **5.2. Enhancement of liquidity management and improvement of the capital turnover ratio**

Yunnan Baiyao Group Co., Ltd. can optimize asset liquidity by strengthening accounts receivable management. Accounts receivable play a key role in the rate of capital flow in the enterprise's business activities, and Yunnan Baiyao Group Co., Ltd. can help to enhance the ability of quick return of capital by setting up stricter credit

sales guidelines and deepening the interaction and communication with its customers to ensure that the accounts receivable can be collected promptly. The company may consider implementing incentives for early payment to stimulate customers to settle their accounts in advance, thereby reducing the timeframe for capital recovery. The implementation of these strategies will not only enhance the efficiency of capital recovery but also significantly improve the asset turnover rate, which will promote the healthy and steady growth of the company's finances.

### **5.3. Appropriate indebtedness to increase the level of financial leverage**

Appropriate indebtedness can help Yunnan Baiyao Group Co., Ltd. achieve higher efficiency in capital utilization. The funds obtained through debt can be used to expand the scale of production and carry out new product research and development and other investment projects, thereby increasing the company's revenue and profit level. Reasonable allocation of leveraged debt can help Yunan Baiyao Group Co. By taking on debt strategically, the company can optimize its financing structure by substituting interest expenses for the higher share dividend costs that may be associated with equity financing. In the current low-interest lending environment, where the cost of debt capital is usually lower than the expected rate of return to shareholders, this effectively reduces the organization's overall capital expenditure. Reducing the cost of capital will help Yunnan Baiyao Group Co., Ltd. to improve its profitability, which in turn will lead to better financial performance<sup>[10]</sup>.

## **6. Conclusion**

After a thorough analysis of the relationship between the diversification strategy adopted by Yunan Baiyao Group Co., Ltd. and its financial performance, this study draws several insights. In detail, the strategy has played a positive role in strengthening the firm's operational and growth potential by giving it greater market resilience and adaptability. However, it has also revealed several shortcomings in terms of profitability and solvency. These problems may be rooted in inappropriate resource allocation, inadequate risk control, and inefficient management in the diversification drive. Enterprises must increase the injection of R&D funds, strengthen the ability to convert research results into practical applications and utilize technological innovation as a propellant to motivate enterprises to move forward. To sum up, the diversification strategy has had a profound impact on the economic operation of Yunnan Baiyao Group Co., Ltd. To effectively cope with the continuous evolution of market competition, the company must unremittably optimize its strategic deployment to ensure that it moves forward steadily on the correct development trajectory.

## **Disclosure statement**

The author declares no conflict of interest.

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