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Research on the Quasi-Financial Model of the Garment Industry—Taking Heilan Home as an Example

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Abstract

In recent years, there has been a growing interest in the quasi-financial model within the garment industry. This study focuses on Heilan Home Group Co., Ltd. as a case study, delving into an analysis of Heilan Home's financial statement data from the past five years. It elucidates the financial attributes exhibited by enterprises following financial backing through the quasi-financial model, offering a comprehensive insight into the characteristics and potential risks associated with adopting quasi-financial strategies in the apparel industry. This examination is achieved through a thorough examination of the model's advantages and disadvantages. Ultimately, this study aims to furnish the garment industry with a solid theoretical foundation for utilizing the quasi-financial model.

Keywords

Garment Industry, Heilan House, Quasi-Financial Model

1. Introduction

With a population of 1.3 billion, China stands as the world's largest consumer and producer of clothing. In recent years, China's garment industry has experienced significant growth, playing an indispensable role in the country's economy. Within this burgeoning industry, enterprises are increasingly diversifying their avenues of financing, with many opting for the quasi-financial model. The quasi-financial model involves enterprises leveraging their bargaining power to access external funds at a low cost through strategies such as deferred payments, prepayment, or fund absorption. These funds are then used to fulfill their capital requirements and facilitate expansion within the accounting period (Li & Wang, 2022). In recent years, this cost-efficient, and sometimes cost-free, approach to obtaining short-term funds with low usage costs and mitigated long-term debt risks has garnered favor among numerous enterprises. Scholarly research has also delved into the performance implications of this model (Pang & Wang, 2019; Qin, 2020). Concurrently, some scholars have highlighted that while the appropriation of upstream and downstream funds through the quasi-financial model may appear cost-free, it is not devoid of risks.

The quasi-financial model carries a distinct risk, as its mismanagement can result in a disruption of the enterprise's capital flow, posing a threat to its growth trajectory and overall financial stability. Hence, the effective utilization of the quasi-financial model for financing stands as a pivotal factor in ensuring the ongoing viability of enterprises. In this context, this paper aims to examine the operational framework of the quasi-financial model as employed by Heilan Home, leveraging an analysis of Heilan Home's recent financial statement data. Through an in-depth exploration of the financial data, this study endeavors to dissect the merits and demerits of this model. Additionally, it seeks to identify potential risks inherent to the quasi-financial model. By doing so, this research aims to provide a comprehensive understanding of the characteristics and potential risks associated with financing through the quasi-financial model (Ding & Dai, 2021).

2. Overview of Quasi-Financial Model

2.1. Definition of Quasi-Financial Model

The quasi-financial model refers to a retailer's practice of conducting cash transactions with consumers while deferring payments to upstream suppliers for several months. This strategy allows the retailer to maintain a significant amount of liquid assets on its balance sheet over an extended period. It establishes a capital circulation system characterized by the following sequence: "scale expansion -> increased sales generate paper-based floating cash -> appropriation of supplier funds for further expansion or redirection to other purposes -> subsequent scale expansion enhances the value of retail channels, resulting in additional paper-based floating cash." In essence, the quasi-financial model resembles a method akin to financial financing, wherein funds are acquired from consumers without incurring interest expenses, and these funds are then utilized to fuel enterprise expansion efforts.

2.2. The Characteristics of the Quasi-Financial Model

Cash transactions between enterprises and consumers primarily revolve around the exchange of goods. By strategically deferring payments to upstream suppliers, enterprises can effectively accumulate substantial liquid assets on their balance sheets over an extended duration. This practice bestows several advantages, including expanded scalability, augmented sales channels, heightened negotiation leverage, and cost-efficient procurement. Essentially, it embodies a quasi-financial model wherein a company appropriates supplier funds, postpones supplier payments for several months, and maintains a considerable reserve of liquid capital within the company's financial records for an extended period. In simpler terms, this model entails acquiring funds from consumers without incurring interest expenses, thus securing cost-free financing for the purpose of enterprise expansion. A schematic representation of this process is illustrated in Figure 1.

As illustrated in Figure 1, enterprises employ their own developmental scale and sales channels to absorb and appropriate supplier funds, subsequently converting these funds into long-term resources through a rolling mechanism. This strategic approach allows them to secure cost-free financing, facilitating swift expansion and diversified growth. However, it's essential to acknowledge that the quasi-financial model carries substantial financial risks concerning cash flow management. A disruption in the capital flow can trigger a domino effect, potentially leading to a precarious situation that may be challenging for the enterprise to rectify. This underscores the notion that the quasi-financial model can be likened to a "double-edged sword."

3. Heilan Home Financial Model Characteristic Analysis

3.1. Introduction to Heilan Home

Heilan Home Group Co., Ltd. (stock code 600398), henceforth referred to as "Heilan Home," was established in 2002. It stands as a prominent clothing enterprise with a comprehensive portfolio encompassing research and development, production, sales, and service. The primary business activities of Heilan Home revolve around brand clothing operations, as well as the production and distribution of high-quality worsted woolen fabrics, high-end suits, and professional attire.

3.2. Quasi-Financial Model of Heilan Home

The evaluation of an enterprise's adoption of the quasi-financial model can be assessed through an analysis of working capital structure, net cash requirements, and cash turnover duration. This financial model is distinguished by several key

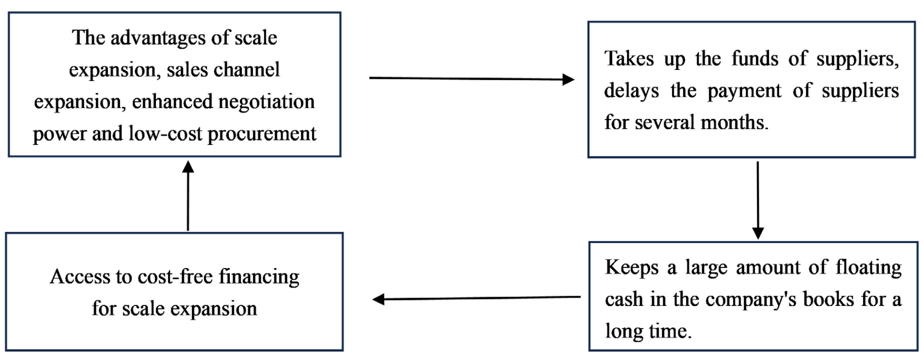

Figure 1. Quasi-financial model diagram.

characteristics, including a positive net working capital, a significant proportion of accounts payable relative to current liabilities, a negative net cash requirement, and a brief cash turnover cycle.

3.2.1. Analysis of Working Capital Structure

Working capital represents the funds that enterprises employ for their day-to-day operational turnover. In a narrower context, it is referred to as "net working capital," denoting the financial resources at an enterprise's disposal to settle non-current liabilities. This metric serves not only as a gauge of liquidity within a business but also significantly influences the enterprise's capacity to secure financing through liabilities. **Table 1** illustrates the net working capital situation of Heilan Home for the years 2018 to 2022. It is evident that Heilan Home consistently maintains a positive net working capital, underscoring its low operational risk.

3.2.2. Analysis of Net Cash Demand

Within the context of an enterprise, the availability of working capital during its operational cycle serves as a reflection of the enterprise's capital flow dynamics to a certain extent. During its operations, it can be challenging to offset funding shortfalls for items such as inventory and accounts receivable solely through funds derived from accounts payable. Often, additional cash is required for these purposes. The demand for cash during an enterprise's operational cycle is influenced by four key factors: inventory, advance payments, accounts receivable, and notes receivable. Funding primarily comes from sources such as deposits received, notes payable, and accounts payable. Net cash requirements are calculated as the difference between working capital demand and working capital supply. **Table 2** provides an overview of Heilan Home's net cash requirements for the period spanning from 2018 to 2022.

Table 1. Net working capital position of Heilan Home (Unit: 100 million Yuan).

Year/Project	2018	2019	2020	2021	2022
Net working capital	36.11	30.25	29.39	37.67	40.41

Data source: According to the annual report of listed companies disclosed by Heilan Home.

Table 2. Analysis of Heilan Home's Net Cash Requirement (Unit: 100 million Yuan).

Year/Project	Working capital requirements	Supply of working capital	Net cash requirement
2018	94.96	659.05	−564.09
2019	101.65	664.73	−563.08
2020	101.23	393.13	−291.90
2021	107.76	259.16	−151.40
2022	111.50	619.54	−508.04

Data source: According to the annual report of listed companies disclosed by Heilan Home.

As depicted in Table 2, the "Net Cash Requirement" exhibits a negative value during 2018 to 2022, implying that the company's funds occupied by suppliers surpass the funds tied up in inventory and accounts receivable from "customers."

As can be seen from Table 2, net cash requirement has been negatived from 2018 to 2022, but the magnitude of requirement has also fluctuated. The net cash requirement was similar in 2018 and 2019, but improved significantly in 2020 and 2021, and fell sharply again in 2022. A closer look shows that the fluctuation of working capital requirements from 2018 to 2022 is not large, but the supply of working capital in 2020 and 2021 is significantly reduced. As we all know, since 2019, Heilan Home has been plagued by inventory overstocking and has begun to vigorously digest inventory. After two years of destocking, as of the first quarter of 2021, the book value of Heilan Home's inventory is 7.278 billion yuan, which has decreased by 2.276 billion yuan compared with the highest inventory in the first quarter of 2019. In 2022, Heilan Home's ending inventory has risen to 9.455 billion yuan (According to the annual report of listed companies disclosed by Heilan Home). Changes in working capital supply may have a lot to do with changes in Heilan Home inventory.

Another possible reason is that the impact of the pandemic in 2020-2021 has seen Heilan Home's supply of working capital plummet. Table 3 provides an overview of Heilan Home's annual revenue for the period 2019 to 2022.

In essence, the company leverages the commercial credit terms offered by its suppliers for payment settlement to effectively manage its own operations (Tang, 2008). This underscores the appeal of the quasi-financial model to businesses and serves as a manifestation of Heilan's utilization of the quasi-financial model for financing purposes.

As can be seen from Table 3, the total revenue of Heilan Home experienced a significant decline in 2020, and although it rebounded in 2021, it declined again in 2022. Comparing the quarterly revenue between 2019 and 2022, it can be seen that the revenue decline in 2020 is mainly concentrated in the first quarter, with revenue falling from 60.89 to 38.48. At that time, it was in the early stage of the epidemic., which affected the daily operation of some offline stores of Heilan Home, and the channels of Heilan Home are mainly offline direct stores and franchise stores. However, Heilan Home responded quickly and actively promoted the rapid development of various online formats. According to the annual

Table 3. Annual revenue of Heilan Home (Unit: 100 million Yuan).

Year/Project	Total revenue	Q1 revenue	Q2 revenue	Q3 revenue	Q4 revenue
2019	219.7	60.89	46.32	39.68	72.81
2020	179.59	38.48	42.54	36.76	61.81
2021	201.88	54.94	46.41	40.21	60.32
2022	185.62	52.12	43.04	41.59	48.87

Data source: According to the annual report of listed companies disclosed by Heilan Home.

report, in 2020, Heilan Home's online channels achieved operating revenue of more than 2 billion yuan, an increase of 55% over the same period last year, and the proportion of online revenue increased to more than 11%. The online sales strategy in 2020 quickly stabilized and led to the performance recovery of Heilan Home, and the performance improved in 2021. However, since 2022, the national regional epidemic has been repeated, consumption has been weak, and the retail sales growth rate of the textile and garment industry has turned negative, and the textile and garment industry has been greatly affected by the epidemic. Heilan's total revenue for 2022 fell to 185.62.

3.2.3. Analysis of Cash Turnover Period

Cash turnover period refers to the rate at which cash is utilized within a specific time frame during a company's operations, essentially representing a statistical measure of cash mobilization over a defined period. The formula for calculating the cash turnover period is as follows: Cash Turnover Period = Operating Cycle - Accounts Payable Turnover Period. In other words, the cash turnover period equals the sum of the inventory turnover period and the accounts receivable turnover period, subtracted by the accounts payable turnover period. When the cash turnover period is zero, it indicates a near-equivalence between the operating cycle and the accounts payable turnover period. A negative cash turnover period suggests that the operating cycle is shorter than the accounts payable turnover period, implying that the enterprise incurs low financing costs and accumulates more funds during its operational cycle. Conversely, a positive cash turnover period signifies that the operating cycle exceeds the accounts payable turnover period, indicating that the supplier not only needs to provide the working capital required for the enterprise's operations but also necessitates the enterprise's own capital investment in its operational activities. The cash flow details for Heilan Home are presented in Table 4.

As evident from Table 4, Heilan Home's utilization of suppliers' funds has been steadily expanding in terms of both scale and duration. It increased from −5.7 days in 2018 to −149.01 days in 2020, of which 2020 to 2021 is a leap from −83.52 days to −149.01 days. Heilan Home extends its occupation of suppliers' funds for a period exceeding 200 days on average, with an extension to over 300

Table 4. Cash flow calculation of Heilan Home (Unit: day).

Year/Project	Accounts receivable turnover period	Inventory turnover period	Accounts payable turnover period	Cash turnover period
2018	12.07	181.14	198.91	−5.7
2019	11.95	150.25	216.1	−53.9
2020	17.5	150.72	239.6	−71.38
2021	18.0	131.18	232.7	−83.52
2022	21.2	135.89	306.1	−149.01

Data source: According to the annual report of listed companies disclosed by Heilan Home.

days in 2022. Furthermore, a comparison of the data in Table 4 reveals that Heilan Home's accounts receivable turnover period remains relatively consistent, maintaining between 10 and 20 days. This observation implies that within its collaborative relationships with upstream suppliers and downstream franchisees, Heilan Home wields substantial influence and bargaining power. This, in turn, enables the company to collect accounts receivable within a shorter timeframe, furnish the necessary working capital for its operations, mitigate bad debt losses, and ensure the smooth daily functioning of the enterprise.

Based on the comprehensive analysis of Heilan Home's working capital structure, net cash requirement, and cash turnover period presented above, it can be deduced that Heilan Home exhibits distinct financial traits aligned with the quasi-financial model. Specifically, the company maintains a positive net working capital, registers a negative net cash requirement, and operates with a relatively brief cash turnover period. These collective indicators affirm Heilan Home's adherence to the quasi-financial model in its approach to utilizing supplier funds.

4. Analysis of the Potential Risks of Heilan Home the Quasi-Financial Model

Given that the quasi-financial model predominantly relies on the appropriation of funds from upstream suppliers and downstream distributors, exploiting cycle differences to secure cost-free working capital, this paper examines the potential risks faced by Heilan Home from the vantage points of both suppliers and distributors.

4.1. Deterioration of Supplier Relations

Maintaining a strong supplier relationship constitutes a pivotal assurance for the stable operation of the quasi-financial model. From various materials and personal analysis, it can be drawn an ensuing figure illustrating the risk mechanism diagram associated with the deterioration of Heilan Home's supplier relationships.

As illustrated in Figure 2, within the framework of the quasi-financial model, any issues arising in the enterprise's sales performance can trigger a reconsideration of the collaborative relationships by both upstream suppliers and downstream franchisees. Potential downstream franchisees may opt not to affiliate with Heilan Home, and upstream suppliers may be hesitant to accept terms

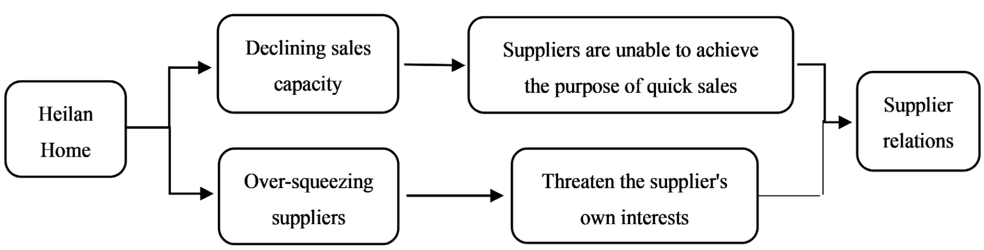

Figure 2. Risk mechanism diagram of supplier relationship deterioration.

that involve an excessive appropriation of their funds. Should such circumstances transpire, there is a substantial risk of the company's capital chain becoming compromised. Furthermore, the undue occupation of funds from suppliers by enterprises poses a direct threat to the interests of these suppliers, thereby affecting the overall supplier relationship. A deterioration in supplier relations is highly likely to exert financial pressure at its source, thereby elevating the risk of a disruption in the financial chain (Nwude et al., 2016).

Hence, from the standpoint of suppliers, Heilan Home should strive to maintain a symbiotic, mutually advantageous, and ultimately mutually beneficial relationship by keeping the payment terms within a reasonable range. This entails refraining from excessively appropriating the supplier's funds and avoiding prolonged delays in settling outstanding accounts with the supplier.

4.2. The Capital Structure Is Unbalanced and There Are More Current Liabilities

Given Heilan Home's high capitalization ratio, in recent years, the share of its debt capital has nearly exceeded fifty percent of the enterprise's total capital, with a significant portion of this debt taking the form of short-term obligations. Within this capital structure, the company's solvency could be considerably compromised if a consistent and stable cash inflow cannot be assured.

In the course of examining the capital structure of enterprises, it becomes apparent that Heilan Home faces challenges in swiftly converting its existing inventory into cash due to the prolonged overstocking of inventory. Consequently, the analysis of Heilan Home's acid-test ratio provides a more accurate reflection of its current circumstances. The capital structure and acid-test ratio of Heilan Home are presented in **Table 5**.

Table 5 reveals that Heilan Home has maintained a consistent debt-to-asset ratio of approximately 50% over the past five years. The debt-to-asset ratio serves as an indicator of a company's long-term solvency. Notably, as a garment enterprise, Heilan Home exhibits a relatively high debt-to-asset ratio, with a substantial portion of its liabilities being short-term in nature. Consequently, when the company encounters challenges related to capital turnover, debt repayment issues become more pronounced.

The acid-test ratio of Heilan Home, as depicted in **Table 5**, has hovered around

Table 5. Capital structure and the acid-test ratio of Heilan House.

Year/Project	Debt to asset ratio (%)	Acid-test ratio (%)
2018	55.75	97.6
2019	52.1	98.7
2020	51.2	113
2021	52.1	119.3
2022	55.7	106.5

Data source: According to the annual report of listed companies disclosed by Heilan Home.

1 for the past five years. This suggests a sluggish capital turnover, which could stem from a dearth of attractive investment opportunities or signal underlying capital turnover difficulties. When analyzed in conjunction with the debt structure, Heilan Home demonstrates a certain degree of short-term solvency. However, the company's revenue was adversely affected by the pandemic, with figures for 2020, 2021, and 2022 amounting to 17.959 billion yuan, 20.188 billion yuan, and 18.562 billion yuan, respectively. These figures represent declines of 4.011 billion yuan, 1.782 billion yuan, and 3.408 billion yuan compared to 2019. Consequently, in conjunction with Heilan Home's asset structure, it is evident that unless the business situation improves significantly or substantial payments are received in the future, concerns regarding Heilan Home's solvency are warranted.

Examining Heilan Home's debt structure, it becomes apparent that current liabilities will represent 80% of the total liabilities in 2022. This illustrates that Heilan Home significantly appropriates both upstream and downstream funds through the application of the quasi-financial model. Nevertheless, the frequent reliance on short-term debt has a discernible impact on the stability of the enterprise's working capital. In the event that the enterprise faces internal challenges or encounters shifts in the overall economic environment, an inability to meet maturing debt obligations could lead to the risk of a ruptured capital chain. Table 5 provides an overview of Heilan Home's current liabilities spanning from 2018 to 2022.

As depicted in Table 6, Heilan Home's current liabilities have consistently exceeded CNY 11 billion since 2018. These substantial current liabilities can be likened to a ticking time bomb, perpetually posing a threat to the financial stability of Heilan Home. In terms of the proportion of current liabilities, Heilan Home has maintained a steady figure of approximately 80% since 2018. This suggests that the company has implemented adjustments within its financial strategy, reflecting its intent to mitigate its reliance on funds appropriated through the quasi-financial model.

5. Problems to Be Considered in the Adoption of Quasi-Financial Model Financing in the Garment Industry

By scrutinizing Heilan Home's financial financing model, we can gain insight

Table 6. Heilan Home debt structure (Unit: 100 million yuan).

Year/Project	Current liabilities	Total liabilities	Proportion of total current liabilities
2018	128.86	164.97	0.78
2019	120.29	150.54	0.80
2020	112.38	145.71	0.77
2021	126.5	164.17	0.77
2022	141.86	182.27	0.78

Data source: According to the annual report of listed companies disclosed by Heilan Home.

into its strengths and weaknesses. However, it is crucial to recognize that certain challenges must be addressed when considering the extension of this model to the broader garment industry.

5.1. Own Brand Advantage

Primarily, Heilan Home's extensive adoption of the quasi-financial model for financing can be largely attributed to the brand advantage it enjoys. Heilan Home has managed to establish a high level of trust within its upstream and downstream supply chain, a feat that is quite rare in the broader garment industry. This factor merits careful consideration.

5.2. The Emergence of Unreasonable Debt Structure

Numerous scholars have demonstrated through their research that the quasi-financial model often results in an imbalanced debt structure within enterprises. The primary source of enterprise funds in this model relies on the appropriation of supplier funds. Consequently, when the capital chain established through this quasi-financial mode is disrupted, it can have severe repercussions for enterprises and impact their solvency (Abdul-Rahman, Said, & Sulaiman, 2017). **Table 7** presents data for the analysis of Heilan Home's operational capacity.

The data reveals that the standard liquidity ratio in the garment industry is set at 2. However, Heilan Home maintains a current ratio of approximately 1.7, which falls below the standard value. This suggests that its short-term solvency is relatively weak. **Table 7** demonstrates that Heilan Home's asset-liability ratio has consistently remained above 50% between 2018 and 2022, indicating potential challenges in its financing capacity and reflecting long-term solvency risks. This aligns with the concerns raised by many scholars regarding the risks associated with quasi-financial models.

Nevertheless, Heilan Home generates robust cash flow from its core profits, and its monetary capital has been steadily increasing. Data show that the standard cash ratio of the apparel industry is generally about 0.2. The higher the cash ratio, the stronger the liquidity of the enterprise. It can be seen from **Table 7** that

Table 7. Heilan Home operating capacity data.

Year/Project	Current ratio (%)	Acid-test ratio (%)	Cash ratio (%)	Asset-liability ratio (%)
2018	171.1	97.6	18.8	55.7
2019	173.9	98.7	28.8	52.1
2020	178.9	113.0	25.2	51.2
2021	183.5	119.3	34.5	52.1
2022	173.2	106.5	22.1	55.7

Data source: According to the annual report of listed companies disclosed by Heilan Home.

since 2019, the cash ratio of Heilan Home has reached 0.288, and in 2021 it will be as high as 0.345. The quick ratio of Heilan Home is consistent with the standard quick ratio, floating around 1, and even close to 1.2 in 2021, indicating that Heilan Home has a certain short-term solvency.

These two indicators highlight the company's ability to meet its financial obligations, indicating that its actual solvency risk may not be as significant as suggested by the financial statement data. Conversely, Heilan Home boasts strong liquidity and experiences low pressure for debt repayment. It can effectively mitigate the risks associated with the quasi-financial model due to its core competitiveness and impressive profit generation. However, other apparel enterprises may lack the robustness exhibited by Heilan Home. Consequently, they could struggle to avoid the risks of an imbalanced debt structure and the potential impact on solvency resulting from the use of quasi-financial model financing.

6. Conclusion

This study, using Heilan Home as a case study, provides an in-depth analysis of the advantages, potential risks, and a range of inherent challenges associated with the quasi-financial financing model within the garment industry. Implementing this model may result in an imbalanced debt structure for enterprises, negatively impacting their solvency, and potentially leading to the rupture of their capital chains. Consequently, for apparel enterprises aiming to employ the quasi-financial model for supply chain financing, a comprehensive assessment of their financial capabilities and industry influence is imperative. To effectively utilize this model, these enterprises should prioritize enhancing product quality, bolstering trust within the supply chain, cultivating a positive customer reputation, establishing brand advantages, and building core competitiveness. This foundation will enable them to formulate financing strategies tailored to their specific needs. When opting for the quasi-financial model as a financing method, implementing a robust risk prevention and control system is essential. This will help mitigate risks and allow these enterprises to carve out a competitive edge within the garment industry while effectively harnessing the potential of quasi-financial mode financing.

However, the analysis of quasi-financial models has its limitations. Compared with traditional financial models, quasi-financial models often lack standardized methods and frameworks. This makes it challenging to compare results across different industries and can introduce subjectivity into the analysis. The analysis of financial models depends on historical data, and limited historical data or unconventional data sources will affect the accuracy of the analysis. Determining whether a business fits into a financial model may focus on specific aspects or variables of the business, while ignoring other key factors that traditional financial models typically consider. This limited range may ignore important factors that could materially affect financial performance or results. Therefore, when considering whether an enterprise uses a financial model, it must be cautious and decide after comprehensive consideration.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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