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high quality agricultual product

Improving current information system for Suning convenience store

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# 1. Executive summary

As the leader of the Chinese business enterprise, Suning’s business covers traditional home appliances, consumer electronics, department stores, daily necessities, books, virtual product comprehensive category. There are more than 1,600 offline physical stores, and online Suning ranks the top three in B2C in China. The integrated development of online and offline leads the new trend of retail development: Genuine goods, quality service, convenient shopping, comfortable experience.

Suning store is an innovative practice in Suning corporation, which is quite different from the traditional convenience store, Suning stores will choose according to user's core requirements to provide diversified products, especially in its key battleground - tens of thousands of communities across the country, Suning stores mainly around the users and the family "kitchen", providing fresh fruits, vegetable, hot food and so on, to forge a of each community is committed to "share" freezer, let users daily, especially lack of centralized shopping time during the time of working days, can in the shortest possible time to enjoy the most fresh ingredients and delicious food.

The objective of this plan is to improve the procurement system, build the information management system of operation standards and process supervision, and reduce related costs when the warehousing system is stable.

From the perspective of business operation standard system, in the production stage, product information is included in the record, and product processing and production information and planting process information are also included in the information database. This plan will promote the improvement of chain supermarket logistics and cash flow, promote the chain supermarket to explore the second profit source, and realize the best value of fresh agricultural supply chain.

# 2. The new MIS—supply chain management information system

## 2.1 Description of the business

Suning store is an innovative practice in Suning corporation, which already owned a perfect warehousing system, this area is divided into room temperature and cold chain fresh two parts. A third of the front tank is the fresh part of the cold chain, which is stored in professional refrigeration equipment. The equipment temperature checklist on the wall is checked and signed every hour from 7am to 22pm. However, there are some problems in its procurement system. Suning as early e-commerce platform, since a straight because of its after-sale link defects was criticized by the broad masses of consumers. Compared with Taobao, Tmall, bargain, APP powerful after-sales service platforms, Suning purchase commitment in delivery time, after-sales services, timeliness were relatively less. Poor service experience, lowers the consumers to the brand's letter as a degree, affect the whole repo rate. As a subsidiary company, Suning shop online services still exist such problems. By analyzing these problems, proposing new methods to improve existing procurement system. The main business of our plan is to improve the procurement system, build the information management system of operation standards and process supervision. Recording the information in the new database, which can provide basis for improving the supply chain, and also provide traceability basic information for subsequent analysis of commodity quality or profit and loss. Therefore, the fresh agricultural product information system of the chain supermarket must have the function of recording and analyzing the safety control and quality supervision of the product source and supply chain process.

By reforming the information flow of fresh agricultural products in the whole circulation process to improve the logistics and cash flow and realize the optimal comprehensive value of the whole circulation process of fresh agricultural products, it is the fundamental purpose of the information management system of the fresh agricultural products supply chain of chain supermarkets.

## 2.2 Industry analysis （written by Winnie）

## 2.2.1 An increasing fad

It is absolute that the form of Suning store is a popular trend in today’s social environment (Looking at the development trend of convenience store industry from "2019 China convenience store conference", 2019). Multiple factors contribute to this fad. In the first place, people in an increasing number adapt to a totally new lifestyle where B2C model and online payment become dominantly in daily life. What’s more, huge attention is paid on the quality of the products and service, especially green fresh food, which is the major product of Suning store. With the concentration of the community, there is a growing tendency of such innovative convenience shops and with the advantage of Suning’s rich and full-skilled warehouse management information system, so it is likely that Suning will occupy the majority of convenience shop market share.

## 2.2.2 Stability of the market

What needs to mention is that the market of convenience shop market has expressed a stable growing trend, especially in the first tier and second tier cities where even the market dramatically jumps. Several reasons can be referred to this phenomenon: the rise of consumers’ purchasing power, the increase in the density of population (schools, community, office building) and the initiative of unmanned convenience store.

## 2.2.3 Location and characteristics of the market

Most convenience shops are located in areas with high density of population, like schools, communities, office buildings, train stations, airports as well. This is due to the characteristics of convenience stores, that is, instant consumption, emergency, and small capacity (The market scale of convenience store industry is growing steadily, and developing rapidly in the first tier and second tier cities , 2018). Although convenience stores may not be able to compete with traditional supermarkets currently, it is likely to play a crucial role in the society and hence is expected to have a favourable prospect in the near future. Suning, as the one of the top participants in Chinese appliance market also show a great interest in convenience shop market. Even though it is not the convenience shop industry leader currently, it is believed that Suning store will be much competitive and target on occupying a large market share, approximate 15%, which is the market proportion of the present largest convenient shop, Meiyijia. And the new procurement MIS is designed to try to achieve this objective.

## 2.2.4 Suning store’s target market

It is common that young people are the main target consumers, such as white collar and college students, while Suning is also considering the old group. Suning store is devoted to develop its green and healthy brand by providing fresh products with high quality (including vegetables, fruits, sea food, meat, etc.), which greatly attracts the old. In order to ensure the quality of this fresh food with very limited shelf life, improving its procurement system by adapting a new procurement MIS is necessary.

## 2.2.5 Five force model

Since the convenience shop market has only developed around two decades (the first domestic convenience shop brand was established in 2000), there is a huge potential for Chinese convenience shop market. In terms of new entrants, as the product difference and brand identity are not so significant in the current industry, it is not difficult for new entrants to share the market. Regarding suppliers, the bargaining power of the supplier is not so strong because of the relatively low switching cost of suppliers. And for buyers, the majority is individuals and most of them tend to be willing to pay the premium price, consequently its power is also not so strong. In respect of competitors and substitutes, since the industry is not saturated yet, the competition is not so fierce, especially in the second and third tier cities. Furthermore, since traditional supermarket can substitute for Suning’s store, customers might choose supermarket if the prices of convenience store become high. However, it is common that the price the products in the convenience shop tends to be higher in other shops, some people will choose substitute in other shops instead of convenience shops and substitutes seem to be accessed with less difficulties. But convenience shop takes the advantage of its instant consumption, the convenience cannot be substituted easily.

## 2.2.6 New opportunities and major challenge

The new MIS for procurement link is expected to reduce the cost and gain more profit for Suning store. It is believed that with more developed procurement, Suning is able to make its procurement link more efficient by measuring most suitable amount of orders and contacting with suppliers timely and effectively. For example, through procurement MIS, Suning can adjust the kinds and amount of its fruit orders according to different seasons with most efficiency. As it mentioned before, it is common that the price of products in convenience shops is usually a bit higher than that in other markets. And this is the most challenge in convenience shop market. But now with a new procurement MIS, this problem can be addressed in some way. That is because a new procurement MIS can not only increase the turnover rate of fresh products, but also reduce the labour cost of procurement department.

## 2.3 Vision statement and a vision trigger

Suning’s vision is to provide customers the freshest products with most convenience. It is committed to building a "shared refrigerator" for each community, so that customers are able to enjoy the freshest ingredients and the most delicious cooked food in the shortest time, even during working day when people lack centralized purchasing time. With new procurement MIS, it must be easier and quicker to achieve Suning’s commitment.

## 2.4 Business objective

Suning store is devoted to making citizens’ life better and has taken huge effort. It is going to cover a variety of services in each community. Besides fresh products, ready-made fast food and takeout food service is also Suning store’s business. What’s more, other roles, like express delivery agency, housing agency, lottery purchase, etc are also be include in its plan (Suning store and rookie post station enter the Bureau in a dispute -- capital scrambles for express delivery "the last 100 meters", 2019).

# 3. Business operation

## 3.1.1 Implementation plan

The primary goal is setting up the new supply chain management system within one year. Since Suning convenience store is facing operating difficulties since 2018, we should apply the new supply chain management system as soon as possible to boost the sales growth.

To set up the supply chain management system, we would choose to outsource the project to SAP, a company professional in enterprise application software constructing. Based on the original system, we require the new system could create a vendor relationship management platform which integrate the upstream agricultural and logistic information together with our company’s information system.

In order to apply the new system as soon as possible, a team would be created to follow up the projects. Based on the current supply chain problem, this team should provide an effective problem-solving plan and submit it to top management within one months. By doing so, the project goal would be established clearly for everyone.

In addition, we plan to hire two professional counselors from SAP so as to maintain the daily functioning of the system. They would participate every team meeting and give comments in the final decisions. It is crucial to have personnel from SAP since they could impart professional technical knowledge and practical experience in applying supply chain management system to our internal employees. Moreover, every small group working for the new project have to report the progress to the leading project official so as to handle the project requirements crossing different department. The leading official also plays the role to monitor the project progress and carry out uniform standards.

In order to disseminate relevant product information to consumers, WeChat and Suning convenience store application would be the main channel to do the promotion. For WeChat, the everyday quality test information would be posted on the official WeChat account as well as application. Based to the customer geographic location, users could choose which store they are interested in firstly. Then, the specific daily discount information would be showed on the homepage.

In order to attract potential customers, we would change their original impression on previous Suning convenience store by redecorating it. The areas putting the agricultural products would move to the place in the front of the window. The discount information would also be made into beautiful posters which aims at covering the seniors who seldom use smartphone. As we know, the seniors usually are responsible in cooking.

Besides, given that the high storage expenses of agricultural products, we develop two promotion strategies to control the inventory. Firstly, we encourage customer order what they want in the existing application one day before. Customer can enjoy 10% discount from the pre-ordering. Secondly, after seven o'clock p.m., the convenience store would start the discount period. These strategies benefit convenience store not only in decreasing electronic cost but also maintaining the quality of agricultural products.

## 3.1.2 Key successful factors

Suning convenience store will provide new procurement system. This system can secure procurement quality and help the store acquire good and fresh product. Besides, it can realize the real-time transmission and effective sharing among purchasing, warehouse and finance, to realize control of cost and quality of product and enhance enterprise competition. The original procurement management system and management mode of the enterprise will be optimized, which can reduce the error rate in the procurement process of the enterprise, ensure the arrival of raw materials and meet the production needs, and improve economic benefits.

### Effective material and inventory management system

From the beginning, fresh agricultural products will go through different stages testing and inspection, which can ensure product safety and quality. The system can examine whether the product is spoiled or good and the result will be recorded on the procure system. Besides, once the place and time of product is changed, new examination of product is needed to ensure the safety problem. In the producing area, fresh agricultural products need to be tested for pesticide residues and soil, fertilizer and water environment during the planting process. After harvesting, sampling inspection on pesticide residue and product grade quality will be carried out.

Additionally, the purchaser will input the daily inventory report of the warehouse into the inventory management system, and the computer will timely update the data information in the system according to the check and calculation function of the database, which can not only improve the accuracy of the data but also save human resources. It is also possible to set up a procurement cycle, order status and inventory warning in the system to clearly understand the material situation from the supplier to the production department. Besides, they will use the inventory management system to find the shortcomings and make timely improvements to it. In addition, by checking the inventory management system, they can make statistics on the raw material type and quantity of monthly, quarterly and annual demand at any time. It is reasonable to make purchasing plan and reduce material backlog, which can let them clearly know the error and the implement the corresponding solutions.

Generally, the supply chain process information can provide the basis for improving the supply chain and provide the traceability basic information for the subsequent analysis of commodity quality or profit and loss.

### Good supplier management

There exists online tendering feature in procurement system. Sunning convenience store will use online tendering to compare the price of different suppliers and find the good supplier. They will use track budget usage so that can reduce purchasing cost and provide customer cost-effective product. They will build relations with different supplier and make timely adjustment when face specific conditions. The supplier resource database will be established in the system, and all kinds of situations of suppliers are closely monitored. Through data screening, the potential suppliers will be cultivated, and the suppliers whose supply quality is not up to standard will be eliminated immediately. What’s more, Sunning convenience store will establish supplier supervision and management system, conduct comprehensive evaluation on suppliers regularly, establish perfect information connection channel with each supplier through computer technology, and fully understand the real-time information of suppliers. Furthermore, the supplier can be detailed classified, according to the important material, supplier quality, delivery speed and factors that can affect the production efficiency of purchasing and classify suppliers as points A, B, C, so that can ensure fresh food and improve production efficiency.

### System effectively

Enterprises upload procurement information to the system, and all suppliers can see the relevant procurement notice at any time and make systematic shipping orders through the system. The payment process can be synchronized to the system, so that the payment process can be transparent and the payment process can no longer be understood through manual consultation, which can improve the enterprise management efficiency, save human resources and optimize resource allocation.

### Effective transport system

In the process of logistics, before and after transportation and storage, loss inspection and confirmation should be carried out, and the quality of product logistics should be checked. Additionally, before the product transport into the chain supermarket stores, the procurement system will confirm the product losses, the freshness of product and monitor the status of goods shelf life. The information system can provide the basis for improving the supply chain and provide the basic for the analysis of product quality and its profit.

## 3.2 Competitive analysis

Suning store has different types of competitors:

Jingdong convenience store is one of the major competitors for Suning store. Jingdong convenience store is not a convenience store model in the traditional sense, but an innovative smart store based on strong technical strength and accurate data feedback. Jingdong convenience store focuses on the supply chain management, provides high-quality goods, and reconstructs the efficiency and experience of retailing on the basis of understanding consumers. More than 85% of orders can be delivered on the same day or the next day, and new products that customers need are constantly being launched.

Convenience Bee has positioned itself as a technology-based convenience store since the establishment. Different from the traditional convenience store, Convenience Bee has been developing smart services, realizing online and offline integration, promoting self-scanning code and face payment, using digital shelves and electronic labels technologies, and establishing an intelligent supply chain system, in order to continuously improve the efficiency of customers’ services.

Freshhema is the complete reconstruction offline supermarkets of Alibaba's new retail format. The biggest difference with traditional retail is that Freshhema uses big data, mobile internet, smart Internet of things, automation technologies, and advanced equipments to achieve optimal matching between people, goods and places. Freshhema has its own complete logistics system from supply chain, warehousing to distribution. Consumers can buy products in the store, or place an order using Freshhema App.

7-Eleven is one of the world's largest chains of convenience store groups. 7-Eleven stores are mainly distributed near consumers’ daily activities, such as the living area, on the way to work, subway stations etc. The success of 7-Eleven depends on its method to supply chain management, creating a solid information system. That enables the company to receive feedback about market demand timely and comprehensive, and establish a strong network of cooperation with suppliers and logistics service providers.

WalMart Supercenter is a traditional department store format, focusing on food safety and product quality. Customers can purchase all the goods they need in the shortest possible time, the fastest speed and convenient shopping experience attracts consumers. With the evolution of emerging consumer trends and the changes brought by the digitalization of retail, WalMart Supercenter focus on “freshness”, “saving money” and “convenience”, in order to provide more efficient shopping experience to customers.

Suning store is different from other competitors. For example, the place selection of Suning store is deeply rooted in the community consumption scene rather than in the business district and office area, its format is more like a community supermarket. In terms of the size of the store, it will basically prefer to choose medium-sized properties of more than 100 square meters, which can accommodate more daily needs that meet the demands of community households. In addition, the services of Suning store have been continuously expanding, such as Suning Post Office, Suning Finance and so on, in order to form a model of a small store to meet all the needs of life.

The strengths of Suning store are high quality, low price products, and a wide range of services. Suning's standardized services and management personnel reserve system can provide a variety of products selection based on scenarios and user core needs. In terms of business model, Suning store adopts a physical store and online APP model, with online and offline operations and intelligent logistics and distribution, to effectively meet customer demand for daily shopping and daily service.

Customers can purchase products through the Suning Store APP and wait for the goods to be delivered or take products by themselves. The physical store realized independent cash register, mobile payment, and set up virtual shelves to display Suning's online promotions. In terms of policy advantages, China has favorable policies for community e-commerce, such as promoting the transformation and upgrade of physical retail, promoting online and offline integration, and reducing corporate tax burdens.

The weaknesses of Suning store are a lot of investment in the early stages of opening a store and the cost of human resources, lead to the expenses are huge. Since the location of small stores is mostly in first-tier cities, the investment in opening new stores accounts for a large proportion of expenses. The expansion of Suning store is too fast lead to the lack of human resources, which is one of the problems that Suning store has to solve. In addition, Suning store is still in the development stage, and has made a lot of investment in supply chain construction and talent reserve.

Community e-commerce platforms are fast, efficient, and low-cost characteristics, lead to many competitors entry the market. Due to the invasion of alternatives producers, Suning stores must improve product quality, reduce selling prices, or launch specialty products; otherwise the sales and profit growth targets may be negatively affected by the competitors. With the increasing competition of community e-commerce convenience stores, customer conversion costs are getting lower, the threat of substitutes of Suning's small stores will also increase.

Suning store can use high-tech, take advantage of the traditiona l convenience store business model, and bring unique intelligent services to customers. Network development technology and huge online resources are one of Suning store’s advantages. Suning store selects the most popular products through big data analysis to accurately grasp customers’ needs. In addition, fresh goods have strict requirements on delivery time, Suning store can improve their supply chain advantages in order to compete with other competitors.

## 3.3 Legal structure and Management Expertise

Legal agreement is corporation because Suning store is affiliated to Suning Tesco Group Co., Ltd. The actual controller of Suning Tesco Company is Zhang Jindong, Zhang and other stockholders own the firm’s property. The CEO of Suning Store Company is Bao Junwei.

The rights, duties and powers of firm’s officers, they need to expand the scale and quantity of Suning stores, and achievie full coverage from online to offline from city to township. In addition, they are also bringing smart and customized retail scenes to meet customers’ needs, guaranteeing the quality of goods, and constantly expanding the service types, such as express delivery, sharing facilities, housekeeping cleaning, even renting and other services.

The rights, duties and powers of firm’s employees, such as improving service awareness, enhancing sense of competition, and improving overall work efficiency. In order to maximize profits, Suning must satisfy customers in selling each product, and the key factor to satisfy customers is the service awareness of the employees. Suning can train employees on a regular basis, and encourage employees to work with high productivity through incentives, rewards and other means

Zhang Jindong is chairman of Suning, believes that Suning store need to ensure product quality, and then expand the size and number, improve the brand awareness. Bao Junwei is CEO of Suning store, thinks that it is necessary to focus on services and products, continuously improve talent reserve, supply chain management capacity, build a better logistics system, and provides a full-scenario consumption experience for customers.

Bao Junwei thinks that the problem that currently bothers him most is team building. The training of Suning store managers needs to be accelerated. In addition to the professional training of employees and the store manager training system, there should be more policies and talent training programs that attract talent. The basic salary of Suning’s directors and senior executives is generally between 500,000 to 1.8 million a year.

There are outside resources available to the business. For example, through technology to enable logistics business, innovative consumption patterns for consumers. Using the power of Internet technology and the complementary resources of Suning's entire industry supply chain, Suning store is achieving the integration of offline services and experience scenarios, in order to decrease costs and improve efficiency.

Suning store may have legal challenges about consumers’ privacy. Consumers need to provide personal information when ordering the products through Suning APP. Suning store can provide relevant suggestions and the most suitable products according to customer information or their browsing data. In this process, customer privacy may be leaked. Suning store should establish a perfect mechanism in order to protect the customer privacy.

## 3.1.1 Implementation plan

The primary goal is to set up the new supply chain management system within one year. Since Suning convenience store has been facing operating difficulties dating from 2018, it is urgent to implement new supply chain management system as soon as possible to boost the sales growth. [1]

To set up the supply chain management system, one-step integrated solution will be chose. Suning convenience store will outsource the project to SAP. SAP is a professional enterprise application software vendor. The major requirement of the project is that based on the legacy system, the new supply chain management system should create a vendor relationship management platform which integrates the upstream supply chain portion, internal supply chain process and the downstream supply chain portion together. The main purpose of bringing in new supply chain management system is to improve agriculture product quality, increase just-in time response and reduce bullwhip effect, as well as owning the ability to produce basic reports, electronic approval of workflows and an easy-to-use interface. (Gunasekaran, 2004) (Dehning, 2007)

A special team will be set up to specify the implementation responsibility and push the following executions. Moreover, this team will provide the progress report of the implementation every month.

In addition, two professional counselors will be hired from SAP so as to maintain the daily functioning of the system. In particular, they will participate each team meeting and give comments on the final decisions. It is crucial to gain human resources support from SAP since they are capable to impart professional technical knowledge and practical experience to our internal employees in applying supply chain management system.

In order to disseminate relevant product information to consumers, WeChat and Suning convenience store application will be the main channels to do the promotion. For WeChat, the everyday quality test information will be posted on the official WeChat account as well as application. Based to the customer geographic location, users can choose which store they are interested in firstly. Then, the specific daily discount information will be showed on the homepage.

In order to attract potential customers, we would change their original impressions on previous Suning convenience store by redecorating it. The areas putting the agricultural products would move to the place in the front of the window. The discount information would also be made into beautiful posters which aims at covering the seniors who seldom use smartphone. As we know, the seniors usually are responsible in cooking.

Besides, given that the high storage expenses of agricultural products, we develop two promotion strategies to control the inventory. Firstly, Suning convenience store encourage the pre-ordering to utilize the push-based model. Customer who order what they want in the application one day before will enjoy 10% discount. Secondly, the discount period will start after seven o'clock p.m. These two promotion strategies benefit convenience store not only in decreasing electronic cost but also maintaining a high level of agricultural product quality.

## 3.4 Support personnel (personal needs)

With the gradual deepening of Suning's multi-industry integration model, Suning store will become the core for many business lines in the industrial service fields, and build Suning store as the consumer service centre with different functions in order to improve customer experience. Suning should research and develop more online platform functions and after-sales warranty based on user needs, provide diversified and segmented services to meet customers’ needs

Suning store also needs to set up an efficient operation team and a scientific operation system to improve the ability of store operation and management. With the rapid development of the community business, the number of online orders in Suning stores is rapidly increasing, and the O2O deep integration operation model is gradually established. Suning should rationally manage talents, prevent brain drain, attract employees with the company's good corporate culture and operational mechanism, and promote the economic efficiency of enterprises.

# 4. Financial planning

The dollar unit would in thousands RMB for all the following financial statements.

## 4.1 Cash flow projections

|  |  |  |
| --- | --- | --- |
| Cash flows from operating activities: |  |  |
| Net profit | 144,610 RMB |  |
| Income tax expense | 0 |  |
| Profit before tax | 144,610 |  |
| Adjustments to reconcile profit to net  cash from operating activities |  |  |
| Depreciation expense | 8,300 |  |
| Increase in accounts receivable | (75,000,000) |  |
| Increase in accounts payable | 290,000,000 |  |
| Interest expense | (5,700) |  |
| Cash flows generated from operating activities | 1,000,000 |  |
| Income tax paid | 0 |  |
| Interest paid | (5,700) |  |
| Net cash from operating activities |  | 215,996,900 RMB |
| Cash flows from investing activities |  |  |
| Cash received from return of investments | 25,000,000.00 |  |
| Cash received from investing activities | 305,825.00 |  |
| Net cash received from disposal of fixed assets | 76,150.00 |  |
| Cash paid for purchasing fixed assets, intangible assets and other long-term assets | (25,016,500) |  |
| Cash paid for investment | (100,000,000) |  |
| Net cash used in investing activities |  | (99,634,525) |
| Cash flows from financing activities |  |  |
| Cash paid for long-term debt | (50,116,250) |  |
| Net cash used in financing activities |  | (50,116,250) |
| Net increase in cash |  | 66,246,125 RMB |
| Cash balance at prior year-end |  | 200,000,000 RMB |
| Cash balance at current year-end |  | 266,246,125RMB |

Positive cash flow implies that the assets of Sunning can settle debts, reinvest in its business, pay dividend to shareholders, and pay expenses. In order to achieve the continuous expansion of their own scale, Suning will increase long-term assets and the investment activities will be greatly increased.

## 4.2 Balance sheet

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** |  | **Liabilities** |  |
| Current assets |  | Current liabilities |  |
| Cash on hand | 270,000,000 | Accounts payables | 290,000,000 |
| Cash in bank | 100,000,000 | Accrued payroll | 7,300,000 |
| Accounts receivables | 75,000,000 | Taxes payable | 17,000,000 |
| Advance to suppliers | 78,000,000 | Utilities | 208,300 |
| Inventories | 240,000,000 | Total current liabilities | 300,508,000 |
| Total current assets | 763,000,000 | Long-term liabilities | 44,000,000 |
| Noncurrent assets |  | Total long-term liabilities | 44,000,000 |
| Buildings | 180,000,000 | **Total liabilities** | 344,508,000 |
| Equipment | 1,500,000 | Owner’s equity | 600,000,000 |
| Depreciation | 8,300 | Total owner’s equity | 600,000,000 |
| Total noncurrent assets | 181,508,300 | **Total liabilities and owners’ equity** | 945,508,000 |
| **Total assets** | 944,508,300 |  |  |
|  |  |  |  |

The balance sheet illustrates a business's net worth. And it is one of the most important financial statements used to illustrate the financial health of a business. We can find that the current ratio is high, which means that the stronger the liquidity of assets, the stronger the short-term solvency. Additionally, we spent 1,500,000 RMB to purchasing new equipment including 100 computers and other office facilities.

## 4.3 Income statement

### 4.3.1 The income statement for the first year

|  |  |  |
| --- | --- | --- |
| Sales | 323,390 RMB |  |
| Costs of goods sold | 610,000 |  |
| Gross profit |  | (286,610 RMB) |
|  | | |
| Salaries expense | (70,000) |  |
| Rent expense | (27,000) |  |
| Advertising expense | (4,000) |  |
| Utilities expense | (27,000) |  |
| Depreciation expense | (8,300) |  |
| Interest expense | (5,700) |  |
| Total expense |  | (142,000) |
|  | | |
| Profit before tax |  | 0 |
| Income tax expense |  | 0 |
| Net Profit |  | (144,610 RMB) |

Notes:

1. At the first year, Suning convenience store aims at capturing the industry sales growth rate.
2. The costs of goods sold include:

* Outsourcing fee for SAP application software.
* Purchase cost for hardware equipment ­­­­­—refers to the purchase and payment fee for computer mainframe, storage equipment, backup equipment and network equipment etc.
* The salaries for the project team which include fifteen people.
* Other miscellaneous fee includes daily maintenance costs.

1. Since the net profit had been in negative for two years, Suning convenience store decide to issue 2-year corporate bond privately to raise 100 million RMB. The debt interest would be 5.7% which same to its parent company.
2. Income tax expenses include 25% of Chinese enterprise’s income tax and the other taxes.

### 4.3.2 The projections of sales and net profits for the first five years

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** |
| Sales | 323,390 | 388,070 | 485,080 | 630,610 | 851,320 |
| Gross Profit | 610,000 | 388,000 | 340,000 | 378,000 | 426,000 |
| Gross Margin % | -50% | 0% | 30% | 40% | 50% |
| Net Profit | -434,000 | -149,000 | 1 | 79,000 | 207,000 |
| Net Profit  Margin % | -134.3% | -38.4% | 0.1% | 12.6% | 24.4% |

## 4.4 Break-Even analysis

|  |  |
| --- | --- |
| Break-Even Point Analysis | |
| Total fixed costs | 150,200,000 RMB |
| Sales price per unit | 0.85 (average) |
| Variable cost per unit | 0.49 (average) |
| Unit contribution margin | 0.36 |
| **Break-Even Point in units** | **0.42 units** |
| **Break-Even Point in sales** | **357,619,048 RMB** |

Notes:

The unit of following figures are in Chinese yuan.

Sales=851,320,000 Total fixed cost=150,200,000 Profit=207,000,000

Variable costs=Sales-TFC-Profit=494,120,000

Variable cost per unit=0.49

Sales price per unit=0.85

Unit contribution margin=Sales price per unit - Variable cost per unit=0.36

BEP in units= Fixed cost per unit/ Unit contribution margin

= 0.15/ 0.36

= 0.42 units

BEP in sales= [Fixed Cost / 1 – (Variable Costs / Sales)]

= 150,200,000/1-(494,120,000/851,320,000)

= 357,619,048 RMB

That is, when sales of units are more than 0.42 units or sales amount is over 351,619,048 RMB, Suning convenience store has a profit, otherwise it has a loss.

# 5. Conclusion

The goal of the circulation management of fresh agricultural products in supermarkets is to reduce the loss of agricultural products and enhance the value of the supply chain of agricultural products. Relying on Suning information system, construct the Suning store fresh agricultural products supply chain information management system, to the whole process of production, circulation, sales of fresh agricultural products information, the basis of characteristic information, business operation process, and quality and safety traceability information into the integrated management information system, it will promote the improvement of the chain, logistics and cash flow, promote the supermarket chain, explore the second profit source, to achieve optimum comprehensive value of fresh agricultural products supply chain.

The construction of fresh agricultural product circulation and supply information management system of chain supermarkets is a systematic project, which needs to integrate information, norms and standards, supply chain logistics system, procurement system and sales system, and more importantly. It needs to integrate and meet the interests of farmers, logistics providers, chain supermarkets and consumers. In reality, it is necessary to solve the problem of "one kilometer from the source" of fresh agricultural product information link with farmers according to local conditions. This system project will achieve good economic and social benefits.

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