Financial and Strategic Analysis on Daphne

Jing XIE
Nanchang Institute of Science and Technology, Nanchang, Jiangxi, China
xjxingyu1234@163.com

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**Abstract.** Daphne is a famous brand of women’s shoes established in HK in 1987. In 1995, it was listed in the main board in HK. This paper takes the main financial data in the annual reports of Daphne enterprise between 2016 and 2018 as the basis in carrying out financial indicator analysis and SWOT analysis. Besides, it will also analyze the causes for the decline in performance of Daphne in recent years from the perspective of corporate brand strategies.

**Brief Introduction to Daphne**

Daphne International Holdings Ltd. was founded in HK in 1987. In 1995, it was listed in the main board of HK (HK0210), up till now, it has been developed into a group of pluralist operation specializing in the R&D, production, processing and sales of shoes. Its various transactions are scattered in mainland, HK and Taiwan, China, Europe and North America. The corporate culture of Daphne brand reflects the group’s spirit of pursuing quality, excellence and innovation.

The corporate culture of Daphne brand: the name of Daphne originates from Greek mythology. Therefore, a lot of Greek elements are employed in the design of Daphne’s logo. “D” is taken as the basic element in “Daphne.” The corporate culture of Daphne brand reflects the group’s spirit of pursuing quality, excellence and innovation. It is just because of such corporate and brand culture of Daphne that brilliant achievements have been made in Daphne International Holdings Ltd. In 1995, Daphne International Holdings Ltd. integrated its mainland business, and was successfully listed in HK Exchanges and Clearing Ltd. Ever since then, the group’s expansion became more rapid, and selling shoes at home and selling them abroad have become two foci of the group. Upon entering the 21st century, Daphne has always been guided by corporate culture, so as to realize the long-term goal of becoming a world-known leading enterprise.

**Analysis on Daphne’s Financial Data and Indicators between 2016 and 2018**

**Main Financial Data of Daphne between 2016 and 2018**

According to the annual reports of Daphne between 2016 and 2018, its main financial data are as follows: aggregate liquid assets: 3,583.5560 million HK dollars in 2016, 2,794.8650 million HK dollars in 2017, and 2,181.7060 million HK dollars in 2018; aggregate current liabilities: 1,490.3720 million HK dollars in 2016, 1,104.79 million HK dollars in 2017, and 1,054.0640 million HK dollars in 2018; aggregate assets: 5,053.1510 million HK dollars in 2016, 4,153.86 million HK dollars in 2017, and 2,969.37 million HK dollars in 2018; aggregate debts: 1,521.1010 million HK dollars in 2016, 1,118.1990 million HK dollars in 2017, and 1,057.9140 million HK dollars in 2018; aggregate shareholders’ equity: 3,523.05 million HK dollars in 2016, 3,035.6610 million HK dollars in 2017, and 1,911.4560 million HK dollars in 2018.

Operation revenue: 6,501.6770 million HK dollars in 2016, 5,210.9950 million HK dollars in 2017, 4,127.0870 million HK dollars in 2018; net profit: -819.1270 million HK dollars in 2016, -734.2040 million HK dollars in 2017, and -994.3970 million HK dollars in 2018. According to the data released by Daphne in its annual report in 2018, the operation revenue of shoe brands that used to be powerful in domestic markets continued to deteriorate, turning in the worst financial statements in history.
Analysis on the Solvency and Profitability of Daphne between 2016 and 2018

According to the above-mentioned financial data, the following analysis can be made: the current ratio of Daphne between 2016 and 2018: 2.40 in 2016, 2.53 in 2017 and 2.07 in 2018; the debt to asset ratio between 2016 and 2018: 30.10% in 2016, 26.92% in 2017 and 35.62% in 2018. From the above-mentioned analysis conclusions can be drawn that the credit standing of Daphne was at its worst in 2018.

Daphne’s net assets income rate between 2016 and 2018: -23.19% in 2016, -24.19% in 2017 and -52.02% in 2018; return on total assets: -16.21% in 2016, -17.68% in 2017 and -33.49% in 2018. According to the analysis made above, it can be concluded that the profitability of Daphne was declining year by year, and at its worst in 2018.

SWOT Analysis on Daphne

Daphne’s Advantages

Daphne’s intelligent product design boasts the most advanced level in the world. It also has world-class production lines, and its production and processing abilities are characterized by high efficiency, low cost and a great variety. The quality inspection of its products is also very complete.

The product research and development capacity of the company is quite strong. The R&D center has a designer team with superior professional qualities and design level. The product R&D teams the designers make up are up to standard, and the shoes they design for consumers are comfortable and fashionable.

The group has ample funds, and its sales teams are also quite excellent in the peer industry. The managers in the group are all experienced in management, and the marketing network of the company is also pretty mature.

The marketing of Daphne is a combination of measures, including consignment joint venture, buying out and specialty stores, etc.

The company adopts the strategy of “surrounding the cities from the countryside.”

Disadvantages of Daphne

According to the publics, there are problems with the quality of some Daphne shoes. It can be seen that there are loopholes in the production management of the enterprise that need to be perfected.

Some employees of the enterprise are inadequate in training. Some consumers say that the after-sale services of some of Daphne’s staff are poor. This will damage the reputation of the enterprise and influence its development.

Conflicts between management and development in the corporate strategies. On the one hand, the decision-making level of the enterprise only value current tactics and strategies while ignoring long-term strategies. They fail to take a general view; on the other hand, there are insufficient talents in operating strategic plans in the enterprise to cope with complicated and variable environment.

The conflicts between innovation and development in the enterprise.

Severe brain drain.

Opportunities of Daphne

Daphne has thousands of networks in China. Its storefronts are distributed in all provinces and cities nationwide, which is in the benefit of the cooperation between Daphne and international brands.

A vast majority of the sales terminals of shoe industry are in the hands of Daphne, enabling it to make quick response to changes in market environment.

Daphne pursues a “grassroots” line, while boasting great cuts in prices, consumers’ purchase experience is also improved step by step.

After China joins the WTO, the telecommunication market gradually opens up to the outside
world. The internationalization of the enterprise will further accelerate, which is in the benefit of the operation and management of the enterprise. Its talent cultivation will also be in step with international level.

In recent years, due to the rapidly developing national economy, there is huge potential for market needs, providing broader development space for Daphne.

**Daphne’s Threats**

In terms of competitive trends, the competition in domestic market will witness a transition from price competition to the competition of core ability innovation. Secondly, the competition pressure of international assets will also be gradually increased after accession to the WTO. Foreign shoemakers will keep accelerating the speed of global development through merger among other methods.

The products sold by agents tend to have huge profiting space, making agents “defect” from Daphne. Besides, as Daphne can’t come into direct contact with terminal clients, they take the dominance in hand, which prevents Daphne to have a direct understanding of market needs and finally, the inventory risks of the products remain high.

Belle is one of the strong opponents of Daphne. Its marketing strategies are completely different from those of Daphne. Belle adopts a middle- and high-end line, with department stores and shopping centers being its main sales channels. Belle builds the group as an empire of shoes with various brands mainly through merger and agency, posing a huge threat on Daphne.

In recent years, there is a sharp decline in the operation revenue of Daphne. The number of its stores with core brand transactions declined from 3,589 at the end of 2017 to 2,648 at the end of 2018, so that it was called Shop Shutting King.

**Analysis on Causes of Decline in Daphne’s Performance Year by Year**

First of all, traditional shoe industry goes from bad to worse. Under the influence of the overall situation, Daphne has also been involved. Due to the recession of traditional shoe industry and the rise of e-commerce, Belle, king of shoes, chose to quit from market in 2017, making it the first major shoe brand that couldn’t hold on. Daphne was also impacted a lot. However, as the saying goes, opportunities coexist with risks. As long as Daphne can grasp its opportunities and respond actively, it still has opportunities to profit. At least, it can break even. But Daphne has obviously failed to do it.

Secondly, there are problems with the development strategies of Daphne. It overemphasizes market share. Through years of development, there are storefronts of Daphne in all streets and alleyways in cities. However, consumers of small cities are quite sensitive with commodity prices. If Daphne wants to survive in the fierce competition, it can only put its commodities for sale. As this will only create scant profit, Daphne has been losing money in recent years.

Thirdly, Daphne fails to seize the opportunity of the rise of online shopping. Instead, it only stresses offline entities. Although entities have important traditional roles, the importance of online marketing can’t be ignored, either. In the current age with developed information, it is not enough to depend on offline physical stores alone, the rising online e-commerce platforms shall also be relied on and online and offline stores shall all be firmly grasped in hand. Daphne has missed the best online shopping opportunity, leading to the gradual decline of it. This is also related to the consecutive mistakes in its development strategies.

Daphne was a fashionable brand for consumers during the first years since it was released. But the brand failed to be upgraded in the strategic planning of the enterprise. As time goes by, Daphne is gradually reduced to an out-of-date brand. Not only does it fail to focus on the maintenance of its own brand, commodities in physical stores and online stores are constantly sold at discounts. Their patterns are also rarely updated, and the materials of its shoes is way worse than before. Combined with reasons of various aspects, clients and consumers, new and old, have gradually discarded the brand of Daphne, and started to find new brands suitable for them. It is a vital problem for any enterprise if it fails to attract new clients and retain patrons. To develop healthily, persistently and steadily, enterprises can’t do without a stable source of customers.
Shoe brands and enterprises like Daphne and Belle all face the same thorny issues. In addition, facing international market competition, lack of fashionable elements compared with foreign brands and lack of competitiveness in prices compared with domestic rising brands, in recent years, the enterprise has seen a gradual decline in its performance of recent years. In addition, it can’t be solved effectively in a short term, mid- and long-term strategic planning is needed to get clear about its own brand positioning, so as to bring user experience of higher quality to the masses of consumers.

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