

# THE APPLICATION OF THE HARVARD ANALYTICAL FRAMEWORK: A CASE STUDY OF WANT WANT CHINA HOLDINGS LIMITED\*

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## Abstract

With the complexity of the market, the financial analysis methods of enterprises need to be updated. As a modern financial analysis method, the Harvard analysis framework adds the considerations of strategy, accounting and prospects to solve the limitations of traditional financial analysis.

The Harvard analysis framework has four analysis parts. First, starting from strategic analysis, detailed strategic analysis is carried out using PEST analysis, Michael Porter's five forces model, and SWOT analysis. The second is accounting analysis, which analyzes accounting policies and accounting estimates from five subjects. The third part is financial analysis. In terms of solvency, horizontal and vertical analysis is carried out from the aspects of profitability, operating ability and growth ability. The last part is prospect analysis, which comprehensively forecasts the development prospects and risks of Want Want Group.

Through research, it is found that Want Want Group should focus on integrating resources and expanding product structure in its strategic direction; in accounting, it should improve the internal audit guidance and internal audit system within the group to improve the quality of its employees; in terms of finance, it should optimize its own industrial structure and strengthen its financial period expenses. In terms of prospects, it is necessary to actively expand overseas markets, focus on the international business environment and foreign exchange risk control.

**Keywords:** WANT WANT Group; Harvard analytical framework; strategic analysis

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## Introduction

According to statistics in 2019, the overall revenue of China's food industry reached 8.1 trillion yuan. Excluding costs, the total profit was nearly 600 million yuan, an increase of about 8% year-on-year. Snack food has the characteristics of convenience and diversity, and is an indispensable and important part of the food industry, and its revenue accounts for a large proportion. The compound annual growth rate of China's snack food industry in the ten years

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from 2009 to 2019 can reach 10% Above, according to the following development trends, China's market potential should not be underestimated.

Based on this industry background, in the context of the Harvard analysis framework, this paper analyzes the industry competitiveness of WANT WANT China Holdings Limited (hereinafter referred to as Want Want Group), which mainly operates snack food products. Based on the annual reports and financial statements released by the company every year Starting with a comprehensive financial analysis is an important way for us to obtain financial information of an enterprise. The obtained data can reflect the financial status of the enterprise, and then deduce the overall development of an enterprise, and provide the stakeholders of the enterprise with an outlook for the future development of the enterprise.

### **Objectives of the Study**

Through the practical application of the Harvard analysis framework, the overall analysis of Want Want Group is carried out, including four major analyses of strategy, accounting, finance, and prospects, and the non-financial information is used to assist Want Want Group's financial analysis. From shallow to deep, step by step, the overall situation of the enterprise is sorted out. This paper mainly has the following three purposes: (1) According to the results of the Harvard analysis framework, it can scientifically demonstrate its own existence for Want Want Group, and provide reference opinions for Want Want Group from the perspectives of corporate strategic development, accounting projects, and prospect forecasting, and improve the financial environment. (2) Since Want Want Group is a listed company, through the objective case analysis in this article, it can provide more authentic and reliable data and information for potential investors, consumers and stakeholder groups. (3) Applying the Harvard analysis framework to the snack food industry is a new model of the Harvard analysis framework application research, which can provide some references for the development and transformation of small and medium-sized enterprises of the same type.

### **Literature review**

The origin of financial report should be from double-entry bookkeeping, and the analysis method of financial report originated in the late nineteenth and early twentieth centuries. The earliest financial report analysis method mainly serves the credit analysis of commercial banks. In western countries, with people's understanding of the essence and analysis significance of financial report, the theory and technology of financial report analysis have also made rapid progress, and formed a relatively unique applied science. Pep, Healy, and Bernard (2000) first proposed the Harvard analytical framework in their book. After many times of practice by domestic and foreign experts and scholars, the disadvantages of traditional financial analysis have become more and more obvious. In the process of development, the comprehensive financial analysis method of the Harvard Analysis Framework has gradually expanded and its structure has become increasingly close. Foreign research on Want Want Group is basically blank. The main content of domestic articles related to Want Want Group mainly involves brand history, publicity, character history, industry status quo, external communication, human resources, supply chain and information industry. Regarding the master and doctoral dissertations of Want Want Group, the author only found three master dissertations, all of which have nothing to do with the financial direction.

So far, due to the limitations of financial analysis, investors are reluctant to trust financial analysis reports, and individual potential users have expressed doubts about the

positive and negative utility of financial reports. The development and changes of the financial environment of enterprises urgently need to change the existing financial analysis methods. Only using one method of financial analysis may have problems of one-sidedness and singularity. The Harvard analysis framework was introduced, and the three categories of strategic analysis, accounting analysis, and prospect analysis were combined with financial analysis. This method has been recognized by many scholars at home and abroad. Through the verification, it is possible to obtain and analyze relevant data in a more systematic and complete manner, and propose effective improvement methods and strategies, so as to examine Want Want Group and the snack food industry from a more scientific perspective. According to the obtained data, some suggestions are put forward for Want Want Group and the snack food industry.

## **Overview of industries, companies and current financial analysis methods**

### **Status of the snack food industry**

At this stage, some snack food companies illegally add additives prohibited by the state to snack food for their own interests; produce some foods that do not meet national standards; improperly control the quality of production lines, and product hygiene is a concern. In terms of sales channels, there are some problems such as improper storage and overdue sales. These important food safety issues are frequently brought to light.

### **Want Want Group Status**

Want Want Group is China's largest rice cracker manufacturer and one of China's largest snack food manufacturers. Based on years of intensive cultivation, Want Want is still a well-deserved leading enterprise in the snack food industry. The data from the author's inquiries over the past five years show that according to the annual report From fiscal year 2016 to fiscal year 2020, Want Want's revenue hovered around 20 billion yuan, which has been in a steady state, but it has not achieved a breakthrough growth.

### **Current Financial Analysis Methods and Limitations of Want Want Group**

From the ratio data publicly disclosed in the financial statements, the analysis methods used by Want Want Group at this stage are relatively traditional.

Regarding the financial analysis method currently adopted by Want Want Group, the analyzed data has problems such as unclear focus and low reference, including: First, the analysis perspective is one-sided. Second, the selection of indicators is limited. Third, choose a single comparison standard. Finally, the analysis lacks futurism. The results of analysis only from past financial data are not enough to support the future development of an enterprise, and more predictive data support is needed to continuously improve.

## **The Application of Harvard Analytical Framework in Want Want Group**

### **Strategic Analysis of Want Want China Holdings Limited**

The strategic analysis of this paper is divided into macro environment analysis, industry environment analysis, and competitive strategy analysis. (1) The macro-environmental analysis adopts the PEST analysis method, and analyzes it from four levels of politics, economy, society and technology. The PEST analysis method is based on the state of non-enterprise factors, analyzes the company's current activities and short-term strategic deployment, and recognizes the company's follow-up macro strategy. (2) The analysis of the industry environment adopts Porter's five forces model to analyze the profit margin and overall competition of Want Want Group from five aspects: competition among enterprises, threat of new entrants, threat of

substitutes, bargaining power of buyers and bargaining power of suppliers It can effectively analyze the industry profitability and competitive environment of Want Want Group, and then analyze its industry competition situation. (3) Competitive strategy analysis adopts SWOT analysis method, which systematically covers the ideas of raising and solving problems in the enterprise, and through the combination of different methods, it verifies the disadvantage of the enterprise in the competition of the same industry. Study Want Want Group's internal environment to analyze its competition strategy, and grasp Want Want Group's competitive strategy by analyzing its advantages, disadvantages, and opportunities and threats in the domestic snack food industry market competition.

#### **Accounting Analysis of Want Want China Holdings Limited**

From the changes in the important assets of Want Want Group from 2016 to 2020, it can be seen that the company's monetary funds, inventories, fixed assets, right-of-use assets, and accounts receivable account for a large proportion of total assets. The accounting policies of these five subjects and estimates have an important impact on the Want Want Group. Therefore, this paper selects these subjects as the key analysis objects. At the same time, because the accounting subjects and accounting policies of the financial statements of Hong Kong stocks are different from those of mainland A-share listed companies, three Hong Kong-listed food companies are selected for the convenience of comparison and comparison of peer competition. They are: Uni-President Enterprise (0220.HK), Dali Foods (3799.HK) and Master Kong Holdings (0322.HK).

The original value of the company's property, plant and equipment (fixed assets) grew slowly, indicating that the expansion of production capacity was small, but the total assets of the company showed a trend of increasing year by year, indicating that the scale expanded rapidly and developed rapidly. From the perspective of the proportion of fixed assets to total assets, with the large-scale growth of total assets, the ratio of Want Want Group's fixed assets in the asset structure has gradually declined in the past five years. At the same time, the company's fixed asset turnover rate has generally shown a gradual increase. The situation shows that the company's fixed asset utilization efficiency continues to improve. The absolute scale of Want Want Group's fixed assets is relatively small, and its proportion in total assets is significantly lower than that of its competitors.

The company's inventory turnover rate shows a downward trend year by year. Although the company's annual provision for depreciation is relatively stable, and the company also controls the ratio of inventory to assets within a small range, there may be a backlog of inventory. The relative proportion of the company's accounts receivable showed a downward trend. At the same time, the company's accounts receivable turnover rate has increased year by year, from 17.76% at the end of 2016 to 24.90% at the end of fiscal year 2020, which also reflects the improvement of the company's accounts receivable operating efficiency. However, it is worth mentioning that the proportion of the company's bad debt provision has increased year by year, indicating that the quality of the company's accounts receivable has deteriorated. Finally, the company's accounts receivable turnover efficiency is at the lowest level among comparable companies, indicating that the company's accounts receivable quality is poor.

#### **Financial Analysis of Want Want China Holdings Limited**

Financial analysis is the cornerstone, plays an important role in the Harvard analysis framework, and is also the core of the Want Want Group analysis under the entire Harvard framework. The author conducts financial analysis through the annual report downloaded from the official website of Want Want Group, and selects the report of Want Want Group for the

accounting period from 2016 to 2020, among which the 2017 annual performance report is released. As Want Want announced in the "Second Interim Report" released in December 2017, some products have characteristics such as "seasonal" and "time-sensitive". After the Spring Festival period, sales will stop. This will cause the operating results before December 31 to fluctuate too much, so it is changed to March 31 to calculate the fiscal year of the current year. Therefore, Want Want Group has updated its fiscal year algorithm since fiscal year 2018, which means that the accounting period for annual settlement is from April 1, 2018 to March 31, 2019, hereinafter referred to as fiscal year 2018, within twelve months ( hereinafter referred to as: within 12 months) performance report and annual report. Collect the financial reports and data of the previous five years of Want Want Group, and use scientific financial analysis methods to find out the advantages and disadvantages of Want Want Group in the financial direction, so that the internal and external enterprises can develop better.

Through the above-mentioned analysis of financial indicators around the four dimensions of the group, we finally clarified Want Want Group's own advantages, disadvantages, opportunities and threats in its own interests, competitors and strategic analysis, which can enable the group to respond to the market environment more objectively and more realistically. Change the situation, use its own unique advantages, seize market opportunities, and accumulate experience to achieve the ultimate goal of improving the status of the enterprise and increasing the ability to resist risks. It is also conducive to enhancing the lasting competitiveness of enterprises in Dali Foods, Uni-President Enterprises, Master Kong Holdings and major domestic well-known snack food industries.

#### **Prospect Analysis of Want Want China Holdings Limited**

Starting from the two directions of Want Want Group's development prospect forecast and risk forecast, under the background of today's economic market, snack food companies should use online and offline integration to overcome their own shortcomings as much as possible, and further improve the supply chain. All kinds of channels work together to make the sales area wider and expand new markets. Want Want Group has a long history and stands out in various cruel business competitions and occupies a place in the snack food industry market. However, in the face of economic globalization, Want Want Group, as a well-known enterprise, can have greater room for improvement in its future development. However, it cannot be ignored that the old product business and traditional sales model are far from enough in the face of fierce competition in emerging markets, and more forward-looking innovation, reform and optimization are needed to resist risks.

#### **Suggestions for Sustainable Development of Want Want Group**

The first four parts are based on the Harvard analysis framework, and comprehensively analyze and summarize Want Want Group in four directions, and expound the current situation and existing problems of Want Want Group. This section will focus on strategy, accounting, finance, and prospects. relevant recommendations. First of all, in the direction of strategic analysis, resource integration should be strengthened, including the research and development of new products, the introduction of new packaging, the grasp of consumer demand on small festivals, and the appropriate expansion of product structure. Secondly, the direction of accounting analysis should improve the internal audit and internal audit system of enterprises and improve the quality of employees. Then the financial analysis direction should optimize the asset structure, strengthen the inventory management, and strengthen the quality management of accounts receivable. Finally, it is the suggestion of the direction of prospect

analysis to strengthen the research on the international business environment and build a foreign exchange risk management system.

## **Conclusion**

In recent years, with the rapid development of China's economy, under the macro background of China's 13th Five-Year Plan for National Economic Development (2016-2020) and supply-side reforms, the food industry has developed well, and both policies and economy have developed. This has added vitality to the industry itself. The changes in the consumption psychology of contemporary consumers have brought the snack food industry to an important turning point and brought many serious challenges. The per capita GDP of the country has steadily increased. Starting from the enterprise development strategy, enhancing the core competitiveness of related enterprises in the industry is an important issue for the snack food industry and enterprises. China Want Want Holdings Co., Ltd., as a veteran enterprise in the snack food industry, competes fiercely in an endless stream of young enterprises. In addition to traditional large-scale supermarket sales, it has completed a series of sales strategy reforms from retail, distribution to e-commerce, etc. Facing the impact and squeeze of various other brands in the same industry, while facing the huge market, Want Want Group should recognize and update its core competitiveness.

According to the annual report in the mid-2021 fiscal year, Want Want Group's operating income in China accounted for 90%, and 10% in other regions. It can be seen that the main market of Want Want Group is in China, and in recent years, the Chinese snack food industry has been protected and restricted by many laws and regulations, including encouraging the development and innovation of the snack food industry, the "2021 National Food Safety Standard Project Plan", "Campus Food Safety" Guarding Action Plan (2020-2022), "Opinions on Deepening Reform and Strengthening Food Safety Work", etc. The snack food industry has a broad space for development. According to the central idea of the policy, it has pointed out the direction for its development and promoted the germination of large-scale and high-standard production. Under the background of the industry, major snack food companies have adopted different strategic development directions. In Hong Kong stock market, Master Kong actively explores overseas markets, with stable growth in business volume, far more holdings than peers, further enhancement of brand awareness, and new market expansion; The Want Want Group's business rebounded after a slight decline in fiscal year 2019. The business has certain uncertainties and needs to be prevented from falling and rebounding repeatedly. Up to now, the gap between Want Want Group and Master Kong Holdings is relatively large.

The food industry has ushered in a period of rapid transformation. The endless stream of fresh innovations has constantly spurred major companies to keep up with the market. Modern consumers' demand for food safety and convenient food is increasing year by year, forcing companies to carry out new products on old products. Change and innovation. Although the market is vast, my country's snack food sales industry is scattered, far less than the mature supply chain, fast-circulating commodities and huge purchase volume of developed countries. With the continuous deepening of the market's openness, there is still great room for the development of my country's snack food industry. The overall consumption presents a new look of concentrated gathering in big cities and sporadic sales in small cities. Enterprises should not only seize the huge consumer population in big cities It should also "go to the mountains and go to the countryside" to grasp the potential huge demand in small cities and new rural areas. However, according to the 2022 interim report, Want Want Group's main business

currently consists of dairy products and beverages, snack foods, rice crackers, and other products; of which, dairy products and beverages account for 57.65% of the operating income, and snack foods account for 57.65%. 25.25%, which shows that Want Want Group's strategic layout in the snack food industry is seriously insufficient. Dairy products and beverages account for a large amount of the company's revenue. It is recommended that Want Want Group deploy the production line of its Vietnam factory to improve its profit margin. Due to the relatively high labor cost in Vietnam Low profit margins of Want Want Group in Vietnam and new channels in overseas markets have become new growth drivers. The factory, which is likely to start commercial operations in the third quarter, is expected to produce confectionary products such as gummies and popsicles for local consumers in Vietnam. Make up for the lack of snack food products and bring diversification.

Through the results of these analyses, Want Want Group is encouraged to actively adjust the industrial structure, further implement the differentiation strategy of technology and products, and on this basis, insist on quality and stable operation, so as to better cope with the business risks brought by future development.

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