

# Exploring the performance impact of implementing financial digital transformation at Mengniu Dairy

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## Abstract

In the context of rapid economic development, the competition among various industries is becoming more and more intense, and the complexity of financial management is increasing as enterprises continue to expand their business scale and increase their business scope, which makes it necessary for enterprises to manage their finances more efficiently, i.e., the old and old-fashioned management mode, and use the digital financial management system to manage efficiently, so as to improve the competitiveness and profitability of enterprises. Based on the theoretical basis of corporate organization and performance, this paper elaborates on the motivation, path and effect of implementing financial digitalization in Mengniu Dairy, and then analyzes the impact of implementing financial digital transformation on corporate performance. The study analyzes corporate performance in terms of financial and non-financial indicators, profitability, solvency, operational capacity, organizational efficiency and market share. The study finds that the implementation of financial digital transformation has a significant impact on corporate performance, and provides some reference for other companies to implement financial digital transformation.

## Keywords

Financial digital transformation, enterprise performance, Mengniu Dairy.

## 1. Introduction

At the beginning of the 21st century, human beings entered a brand new information era, and the emergence of information technology not only provided convenience and enriched people's lives for living and working, but also provided important technical support for the development of economy and society as well as various high-end science and technology. After this, cloud computing, big data, artificial functions, Internet of Things, blockchain and other technology clusters appeared in the public's view and gradually became increasingly deep under the penetration of economic and social fields. The digital economy based on digital technology and the Internet as a platform began to gradually emerge, showing platform and data as a whole, while the emergence of these digital economies posed new challenges to the business management of enterprises. Under the background of rapid development of information technology, the use of information technology has not only facilitated the daily life of the public, but also shaped a new business environment, and the challenges faced by enterprises include complex economic situation, disruptive industry competition pattern, rapidly evolving business models, exponential growth of data and more stringent regulatory environment. The inevitable passage. Under the impact of digitalization, the finance function will change from data calculation, reporting and analysis to insight, decision making and execution. It is evident that the use of information technology can help to improve the business capabilities and enhance the profitability of the company.

With globalization and the emergence of emerging economies, the intermingling of economic transactions between countries around the world and the increasing complexity of economic

development, many companies have opted for the digital transformation of their finances in order to ensure sustainable business development. Many domestic and foreign scholars have explored the digital transformation of finance. Popova Yelena et al. (2022) consider shared services in digital payment operations as a key indicator to achieve a smart city and thus a sharing economy. In addition, domestic scholars have conducted many studies on the digitization of finance; Qinwei Zhang (2020) proposes that when finance undergoes digital transformation, the finance system should implement the right changes in terms of conceptual reengineering, personnel reengineering, organizational reengineering, process reengineering, and system reengineering. Zhang Qinglong (2020) argues that finance digital transformation begins with shared services, and that finance shared service centers provide an important data base, organizational base, technology base, and decision service concept base for finance transformation. The implementation of finance digitalization has a significant impact on enterprise performance. Li Qi et al. (2021), based on a study of the moderating effect of entrepreneurship, concluded that digital transformation plays a positive moderating role on enterprise performance through the integrated role of supply chain; Zhang Jichang and Long Jing (2022) found that digital transformation significantly affects the innovation capacity, absorption capacity, and adaptation capacity of enterprises, thus significantly affecting the innovation performance of enterprises, in addition to enhancing the innovation capacity of significant impact within the firm as well. This shows that the implementation of financial digital transformation in firms can help to improve the performance of firms.

In summary, digital transformation of finance is inextricably linked to the performance of a company. In this paper, we take Mengniu Dairy as the research object, through understanding and exploring the financial digital transformation path implemented by Mengniu Dairy, and comprehensively analyzing the impact on the performance and non-performance of the enterprise before and after the transformation. The paper then explores the issues that enterprises should pay attention to when implementing the digital transformation of finance, and forms a set of digital road suitable for the development of the enterprise itself, which can make the finance function expand and the financial value creation ability improve.

## **2. Mengniu Dairy's financial digital transformation analysis**

### **2.1. Corporate Profile**

China Mengniu Dairy Company Limited is an investment holding company primarily engaged in the production and sale of quality dairy products in China, and Mengniu has become one of the leading dairy product manufacturers in China. As the first company in the dairy industry to implement a financial sharing center, Mengniu Dairy Group operated the FSSC in November 2015, and positioned the FSSC as a financial sharing service platform integrating fund management sharing and accounting sharing. It allowed Mengniu Group to realize the centralized settlement of all business segments for centralized collection and payment, and basically realized the management of zero cash in all business units.

### **2.2. Motivation analysis**

#### **2.2.1. External reasons**

Intensification of market competition:

The rapid economic development of the industry in China in recent years and the constant entry of new dairy production companies into the market, as well as the stimulating competition within the dairy industry, have forced Mengniu to seek new models and methods to change its internal organizational, management and financial management structures. Mengniu promptly optimized the strategic positioning of the company and embarked on digital transformation in response to the market development trend. To ensure the smooth implementation of the digital

transformation, Mengniu chose to build a new financial shared service platform, thus ensuring the sustainable development of the enterprise.

Changes in the technical environment:

In the context of rapid development of science and technology, technologies such as "big, mobile, things, intelligence and cloud" are being integrated with the development of industrial economy. Mengniu Dairy is more sensitive to the development of the times, and has already started to focus on improving the level of information technology in the information era, with ERP-based financial management, intelligent manufacturing plants, and cooperation with advanced foreign enterprises to absorb management experience, etc., all laying a solid foundation for the current digital upgrade of the entire industrial chain. We build intelligent applications and platforms from within the enterprise to solve problems in a timely manner through online data information, thus improving operational efficiency. Through data analysis to improve the use value of information, reduce labor costs, capital costs and other costs of wasted resources due to information asymmetry, etc.

### **2.2.2. Internal reasons**

Financial management model needs to be transformed

First of all, due to the expanding scale of business, Mengniu has several production bases in different regions, and each subsidiary has its own relatively independent financial system and accounting methods, which makes the enterprise have certain omissions in accounting and supervision. Secondly, the disconnection between finance and business makes the finance staff need to deal with a lot of repetitive work mechanically, which reduces the efficiency of the finance staff. At the same time, the financial personnel do not know enough about the business work and have difficulty in accessing the actual operation of the business, so that they cannot provide assistance in the production and operation of the enterprise. Due to the disadvantages of poor liquidity and low quality of data, there is a certain information asymmetry between the group and subsidiaries. The implementation of digital transformation of finance can, to a certain extent, break the barriers between finance and business, and the efficient use of data can help enterprises to improve their utilization rate, thus providing a certain degree of assistance in the enterprise's decision-making.

The need for strategic development:

The overall positioning of Mengniu's finance organization has three main aspects: strategic finance requires specialization, operational finance plays a supporting role, and shared finance is an important part of accomplishing efficient operations. Through the shared center, a large amount of repetitive work can be centralized and then operated on a large scale, promoting the integration of business and finance and improving the operational management efficiency of the enterprise. In Mengniu's latest five-year development plan, the implementation of the financial sharing center is the most critical step. On the basis of the Finance Sharing Center, Mengniu will continue to optimize and upgrade the Finance Sharing Center by expanding new business sections, improving the organization and implementing data sharing, and moving toward a profit-centered approach. Under the guidance of the core strategy, the digitalization level of the Finance Sharing Center will continue to improve, which will not only help to share data within finance, but also help to realize the integration of finance and business, thus providing support for business operation and enhancing the profitability of the enterprise.

## **2.3. Path analysis**

### **2.3.1. Budding stage**

From 2009 to 2012, Mengniu started to carry out the digital transformation of finance. In 2013, Mengniu started the construction and implementation of the financial sharing center, choosing a dual sharing model that could take into account both financial accounting and fund

management. Mengniu chose some financial digitalization tools and technologies, such as ERP system, financial shared service center, and data analysis tools, to improve the efficiency and accuracy of financial management. We also strengthen the training of financial digitization personnel and enhance the working ability of the enterprise staff. The smooth operation of the financial shared center realized the integrated model of production and supply, as well as sales, the initial integration of finance and business, and the initial plan of financial digital transformation began to be realized.

### **2.3.2. Pilot phase**

Starting in 2016, Mengniu optimized its financial business processes and organizational structure, began to fully promote the application of the financial sharing center, and integrated and standardized the financial management of each subsidiary. In line with the strategic pace of the enterprise, Mengniu further integrated the resources of finance and business, integrating payment and collection operations for some basic procurement and transportation activities, and realizing the synchronization of business operation processes and related fund operation accounting. At the same time, Mengniu has researched and developed a new intelligent analysis system in order to strengthen the ability of mutual collaboration between different business departments and realize the sharing of data between finance and business, using the system to observe the fluidity of data, promote the integration of activities between finance and business, and jointly make useful decisions for the business development of the enterprise.

### **2.3.3. Development stage**

In 2017, Mengniu's financial sharing center operations have stepped into the stage of optimizing operations, continuously optimizing and improving the business processes and technology platform of the sharing center to meet the changing business needs and market environment. After that, the focus was on the optimization of strategic resources and the timely insight of data through the sharing platform. After that, in 2017, Mengniu started to focus on customer service, helping its internal customers to promote it by signing service level agreements with them, successfully achieving the effect of profit-centric transformation, strengthening customer service while improving consumer satisfaction. The precise targeting of services has improved customer satisfaction and transformed the company's working model, which in turn has improved its operational efficiency.

## **3. The impact mechanism analysis**

### **3.1. Streamlining costs**

First, by digitally automating financial processes, such as automatically generating reports, reducing manual entry, and automatically reconciling accounts, labor and time costs can be significantly reduced. Second, using electronic document management to save all financial documents and data in the cloud or electronic storage can reduce the cost of paper and physical storage space, and also improve the traceability and security of data. Using some financial software, online tools or APPs can help complete some repetitive and tedious financial tasks, such as financial management, running account records, budget monitoring, etc., which can effectively improve work efficiency and reduce error rates. Finally, regular statistical analysis based on data from the financial sharing platform can help enterprises understand the trend of changes in various financial indicators, identify potential problems early, and adjust strategies and cost control in a timely manner.

Overall, the digitization of finance can not only help companies improve financial efficiency and reduce costs, but also improve the processing and analysis of financial data to provide more support for future growth.

### 3.2. Strengthening internal control

The use of digital model can improve data accuracy, the digitalization of finance will greatly reduce the probability of human error, make financial information more accurate and reliable, and thus reduce internal control loopholes. In terms of optimizing process control, digital system can realize comprehensive and detailed recording of financial business flow and provide real-time monitoring and early warning mechanism, which enables management to effectively control every step of operation, reduce errors and omissions, and thus strengthen internal control. With regard to auditing, the digital system is able to keep all operation records intact, making it easier to carry out auditing work, and auditors can easily access all key information through the system, avoiding loopholes and mistakes in auditing work. Finally, the digital system can improve the basis for decision making by integrating and aggregating a large amount of financial data and providing a variety of analytical tools so that management can make more accurate decisions based on the detailed data analysis results.

In summary, the strengthening of internal control of financial digitization is a continuous process that requires continuous improvement of the digitization system, optimization of process flow, improvement of data accuracy and integrity, and gradual strengthening of supervision and audit of each link.

## 4. Performance Analysis

### 4.1. Financial performance analysis

#### 4.1.1. Profitability analysis

In terms of operating income status, since the implementation of the financial digital transformation, Mengniu's gross margin is in an upward phase, rising from about 30% in 2014 to 37.65% in 2020, but there is a short-lived decline in 2021 as well as in 2022. Analysis of the reasons for this may be due to the market environment, with some residents' incomes showing a slight decline in the last two years, and therefore a decrease in consumption power. In terms of its return on net assets, it was in a decreasing trend from 2014 to 2016, but has been in an increasing trend since then, which shows that Mengniu's return on net assets has been increasing after a short period of adaptation to the transformation, indicating that the enterprise has experienced the consequences of cost reduction and efficiency increase after the implementation of financial digital transformation.

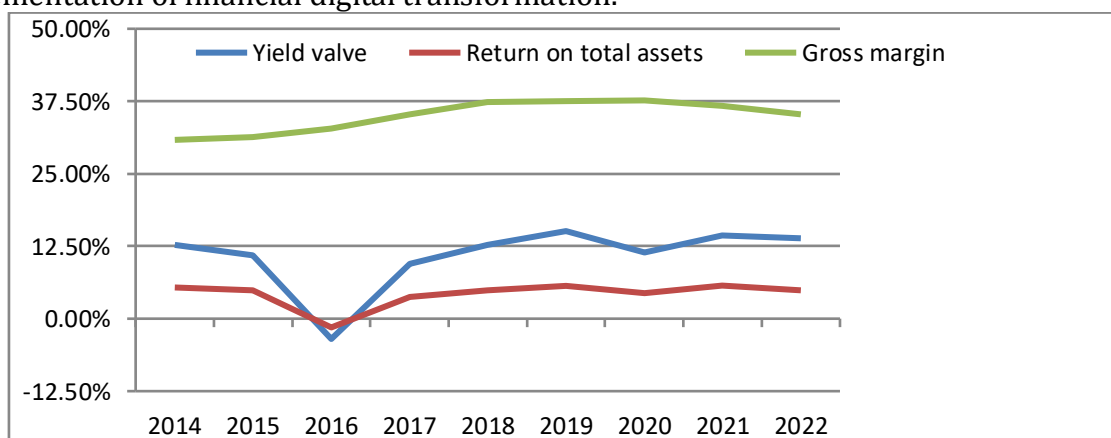


Figure 1 Change in profitability indicators of Mengniu Dairy 2014-2022

#### 4.1.2. Solvency analysis

According to the financial current ratio and quick ratio, the current ratio is in a decreasing trend from about 1.5 in 2014 to about 1 in 2022, as well as the quick ratio value is around 1 for a long time, which indicates that the short-term liquidity reserve of the enterprise meets the short-term debt service demand, which shows that the solvency of the enterprise is in a favorable



situation. According to the trend of the change in the value of the gearing ratio, it has been in the range of 40%-65%, which shows that the enterprise has been in a good operating condition and is in a rising trend, which shows that the solvency is increasing and the development ability of the enterprise is also increasing.

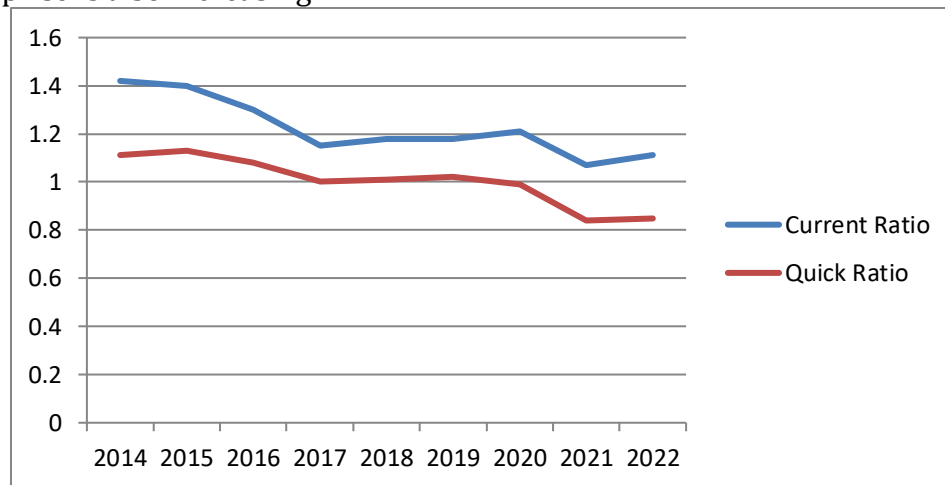


Figure 2 Change in Solvency Indicators of Mengniu Dairy Industry, 2014-2022

#### 4.1.3. Operating capacity analysis

Inventory turnover ratio mainly reflects the operational efficiency of the enterprise's inventory. 2018-2022 Mengniu's inventory turnover ratio and total asset turnover ratio are both in a rising stage, which indicates that the enterprise is able to turn inventory into cash quickly, reducing the risk of inventory backlog and improving the efficiency of capital utilization, and also indicates the enterprise's strong sales ability and market competitiveness. At the same time, a high inventory turnover ratio can also reduce the inventory cost and the risk of inventory stagnation. At the same time, total asset turnover also shows a trend of year-on-year increase, which means that enterprises can recover assets faster and improve the efficiency of capital utilization, thus increasing the profitability of enterprises. Therefore, higher total asset turnover is usually considered to be a sign of more efficient business operation.

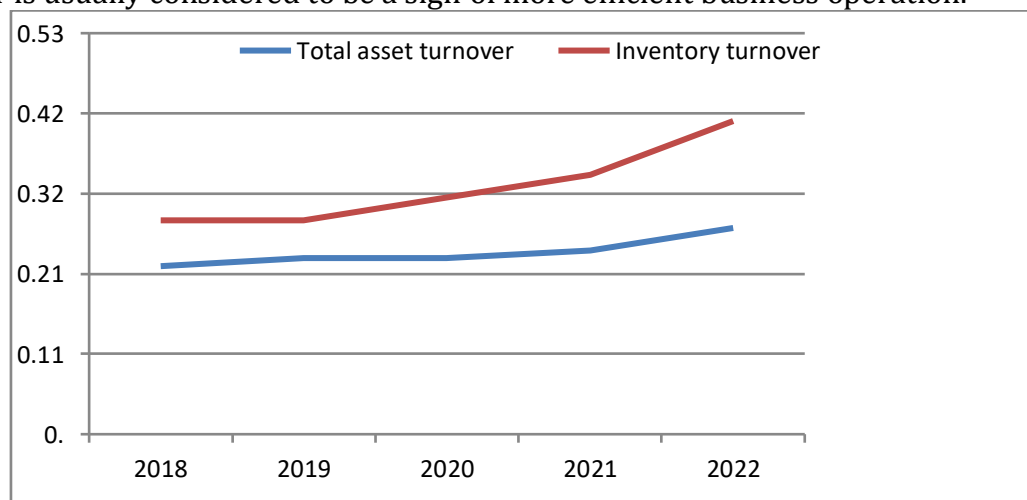


Figure 3 Changes in Operating Capacity Indicators of Mengniu Dairy Industry 2018-2022

## 4.2. Analysis of non-financial indicators

### 4.2.1. Organizational efficiency

The digital transformation of finance can adjust the process structure within enterprises, reduce some unnecessary process steps, and improve organizational efficiency. The unified caliber in the process of information transmission makes the communication efficiency of information transmission improve. In addition, the construction of the financial sharing center

is based on the integrated allocation of resources such as personnel and information systems, which can not only form the sharing of business and finance-related information, but also improve the timeliness and utilization rate of information, which can largely improve work efficiency. After the establishment of Mengniu Dairy's financial sharing center, it has realized the flat management of financial organization, enhanced the communication ability between various departments of the enterprise, and improved the efficiency of communicating information between departments. The sharing center uses an integrated security system, an image transmission system, and a capital management system to unify information from each branch and reduce the barriers and time for corporate communication by sharing information. From the perspective of asset and liability ratio, the flat organizational structure can help improve the asset and liability ratio of the enterprise, increase the financing ability of the enterprise's assets and control the financial risk of the enterprise, thus improving the operational efficiency of the enterprise; from the perspective of inventory turnover, the combing and optimization of processes can reduce unnecessary procedures and accelerate the efficiency of the enterprise's inventory utilization.

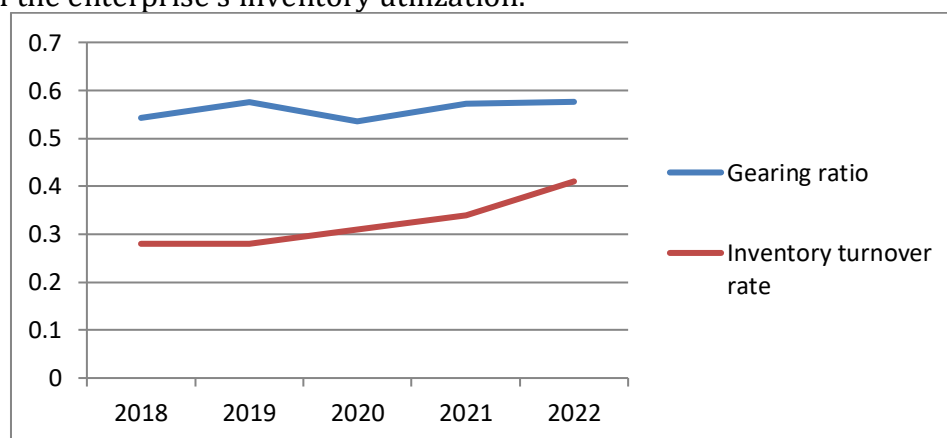


Figure 4 Changes in organizational efficiency indicators in Mengniu Dairy

#### 4.2.2. Market share analysis

Mengniu Dairy achieved an increase in the total sales volume, an increasing share in the industry, and an increase in market share from 2018-2022, indicating Mengniu's strong competitive advantage in the market, the relatively high number of its products sold in the market, and the increasing production and operation capacity of the enterprise. Through digital transformation, the enterprise increases the research and development of new products, continuously improves its production level and increases its market share. And enterprises with high market share usually have strong market competitiveness and profitability, and can better control the market and stabilize their position in the market.

Table 1 Total production of Mengniu dairy industry in the whole industry (unit: 10,000 tons)

	2018	2019	2020	2021	2022
Mengniu Production	975	950	990	1166	1291
Total industry output	2687.1	2719.4	2780.4	3031.7	3117.7
Percentage of	36.28%	34.93%	35.61%	38.46%	41.41%

## 5. Conclusions and Recommendations

### 5.1. Conclusion

After analyzing the financial digital transformation process of Mengniu Dairy and understanding the main systems and processes of the financial shared service center, we can find that. Within a period of time after the implementation of financial digital transformation, Mengniu has established an integrated information platform with unified links to business units across the group through process reengineering and organizational restructuring, and has achieved the goal of increasing costs and efficiency. The investigation of the enterprise performance found that the implementation of financial digital transformation has improved the profitability of the enterprise to a certain extent, and the market share and organizational efficiency of the enterprise have also improved. However, in the context of rapid information development, Mengniu Dairy's financial shared service platform still has certain problems, such as the insufficient degree of communication integration between business and finance in the financial sharing center, limitations in the ability to mine corporate data, and the still imperfect construction of its digital information system. The reasons for this may be the gap in work perception between business and finance departments, the lack of overall financial digital talent, and the lack of overall digital strategy height of the financial sharing platform. By analyzing their problems, we propose relative suggestions to help enterprises better implement financial digital transformation, achieve the goal of cost reduction and efficiency increase, and improve enterprise performance.

### 5.2. Recommendations

#### 5.2.1. Promote the integration of business and finance

First, it is important to build a digital platform. The digital platform is an important means to promote the integration of business and finance. Through the digital platform, the sharing and exchange of business and financial data can be realized, and the efficiency of business and financial collaboration can be improved. Secondly, it is also important to develop a digital strategy. Developing a digital strategy is a prerequisite for promoting business and finance integration. The digital strategy needs to consider the business characteristics of the enterprise and the goal of digital transformation, and clarify the direction and focus of digital transformation. The digital strategy needs to be jointly developed by business and finance to ensure the synergy of digital transformation with business development and financial management. Finally, communication and collaboration are the keys to promote business and finance integration. Business and finance need to enhance communication and collaboration to jointly solve the issues and challenges in digital transformation. Business and finance need to establish a good partnership to jointly promote the implementation and grounding of digital transformation.

#### 5.2.2. Cultivate digital talents

Formulating a digital talent training plan is the foundation for cultivating digital talents. The digital talent training plan needs to consider the digital transformation goals and needs of the enterprise, and clarify the direction and focus of digital talent training. The digital talent training plan needs to be jointly developed by the HR department and digital transformation project team of the enterprise.

In addition, digital talents need to continuously learn and improve their digital capabilities. Companies need to enhance the training and learning of digital talent by providing training courses and learning resources related to digital transformation. Digital talents also need to attend industry conferences and seminars to learn about the latest digital technologies and trends. Finally, companies need to establish incentive mechanisms for digital talent, which in



turn mobilize employees' motivation and creativity. Among other things, incentives for digital talent can include salary incentives, promotion opportunities, equity incentives, etc.

Digital transformation of finance is an important part of digital transformation of enterprises. Promoting the integration of business and finance and cultivating digital talents are issues that need to be addressed in the process of finance digital transformation. Enterprises need to establish digital platforms, develop digital strategies, strengthen communication and collaboration, cultivate digital talents, and establish incentive mechanisms for digital talents to realize the synergistic development of finance and business.

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