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IMPACT OF INVENTORY FINANCING OF SHWELAN ON THE SALE AND PROFITIBILIY OF FMCG RETAIL BUSINESSES IN HLAING THARYAR TOWNSHIP, YANGON

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Impact of Inventory Financing of ShweLan on the Sale and Profitability of FMCG Retail Businesses in Hlaing Thar Yar Township, Yangon

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ABSTRACT

This research is about ShweLan and inventory financing which ShweLan is offering to FMCG retail shops in Yangon. The study aims to examine its services and to analyze the impact of receiving inventory finance on the performance (sales & profitability) of FMCG retail businesses in Hlaing Tharyar Township. There are a total of 18 customers in Hlaing Tharyar which received the fund from ShweLan to purchase the inventories required for their businesses during 2019. Based on the survey results, it was found that there is a correlation between the use of inventory financing and the sales & profitability of the business and the inventory finance helps to increase sales and profits of the FMCG businesses. It is suggested that ShweLan should improve its processing time for loan applications and its interest rate charged to its customers for the inventory financing.

ACKNOWLEDGEMENT

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FMCG	Fast Moving Consumable Goods
IFC	International Finance Corporation
SME	Small Medium Enterprises
MMK	Myanmar Kyat
YCDC	Yangon City Development Committee
CBM	Central Bank of Myanmar
ANOVA	Analysis of Variance

CHAPTER 1
INTRODUCTION

In Myanmar, the financial sector is still in the underdeveloped stage so most businesses in Myanmar are not completely able to rely on the financial institutions for their source of financing for their business operations and growth. The common sources of financing for businesses in Myanmar are from personal savings, family supports, and financial institutions such as banks, microfinances and finance companies. The general purpose of the funding need for a business is that it could be for working capital; for buying machinery; for recruiting additional employees and even for refinancing existing loans to reduce its interest costs. Financing could generally impact businesses on their growth, operations, sale and revenue, job creations, ultimately economy of the country.

A working loan is for business's day-to-day operations rather than the use of buying long-term assets or investments. In this way, these types of loans are simply corporate debt borrowings that are used by a company to finance its daily operations. Globally, SMEs are lack of access to working capital. Across emerging markets, they face a USD-1-trillion credit gap. In Myanmar, this gap is estimated to be over USD 2 billion according to IFC data. The opportunity to access small amounts of finance can be an important catalyst for SMEs to get access to the resources they need to gain a position in the market Nevertheless; SMEs usually face severe challenges in securing financing, particular at the beginning of forming their businesses. Frequently, SMEs' financial needs are too large for traditional moneylenders and microcredit agencies, while banks tend to avoid this market due to administrative intensity, the lack of information, and the uncertainty of credit risk. Hence, the availability of specialized and formal institutional resources for SME development is the base for creating a level playing field and facilitating their access to finance.

ShweLan is a brand name of Sarine Myanmar Co.Ltd which is a fintech company and that is part of a multinational global investment company based in Switzerland. It was established in 2018 aiming to provide value chain financing for SMEs and currently providing working capital financing services to FMCG businesses and other related businesses in Myanmar. ShweLan is planning to provide a number of financing services such as invoice discounting, purchase order financing, inventory financing,

and asset financing in Yangon. One of its products called inventory financing, which has been providing since one year ago, is the most viable products for FMCG retail businesses in Yangon.

Inventory financing is an asset-backed, revolving line of credit or a short-term loan to a company so it can purchase products for sale. Those products, or inventory, serve as collateral for the loan if the business does not sell its products and cannot repay the loan.

Fast-Moving Consumer Goods (FMCG) businesses are the businesses that sell products that are sold quickly and at a relatively low cost. For example, they are non-durable household goods such as packaged foods, beverages, toiletries, over-the-counter drugs, and other consumables.

1.1 Rationale of the study

There have been a number of studies related to the financing for SMEs in Myanmar in the past. Among the various business types of SMEs in Myanmar, the common barrier of accessing finance from financial institutions is due to a lack of collaterals to receive sufficient funds to operate a business. Also, required additional documents and lengthy processes of financial institutions are the main concerns of the small businesses to work with them. Although a number of microfinance institutions were recently entering to the local market and becoming active to provide funds in all regions of Myanmar, they are still not providing sufficient funds especially for small businesses which are not the banks aim to do lending activities with. Their main target is to provide small individual loans and group loans. Thus, most small businesses are not receiving funds or receiving insufficient funds from micro-finance institutions. FMCG retail businesses are the one of the types of small business which is not receiving sufficient funds from the institutions for their growth and seasonal business needs. ShweLan is the finance company which has been serving inventory financing service to those FMCG businesses in Yangon. Generally, it is realized that there will be a certain advantage for the businesses for the use of the inventory financing of Shwelan. In fact, in order to better understanding the impact of inventory financing on the customers of ShweLan, this study will cover the financial services of ShweLan and analysis of the impact of inventory financing on the sale and profitability of ShweLan's customers similar to what has been studied on related topics.

1.2 Objectives of the study

The main objectives of the study is

(1) To identify the financial services of ShweLan

(2) To examine the impact of inventory financing of ShweLan on the sale and profitability of its clients in Hlaing Tharyar Township

1.3 Scope and Method of the Study

In this study, services of ShweLan offered in Yangon and profiles of its clients in Yangon were identified and the impact of Inventory Financing of ShweLan on the performance (sales and profitability) of the FMCG businesses was analyzed. Both primary and secondary data were collected. For primary data, a survey questionnaire was prepared and ShweLan's internal information and published related reports were sourced. The telephone survey was conducted with all 18 FMCG business owners from Hlaing Tharyar Township because the larger sample gives more reliable results with greater precision and power for the study. As for the data collection tool, Jotform software was used, and Excel was applied as a data analysis tool.

1.4 Organization of the Study

This report is comprised of five chapters. Chapter 1- Introduction, Chapter 2- Literature Review, Chapter 3- Financial Services of ShweLan followed by Chapter 4- Analysis on the Impact of Inventory Financing on the Sale and Profitability of FMCG businesses and Chapter 5- Conclusion.

CHAPTER 2
LITERATURE REVIEW

It is almost a truism in our contemporary economic world that one of the major catalysts to a nation's economic growth and development is the presence of an active system of small scale industries; as they have economic growth tendencies in their nature and mode of operations. (Marshall Inebi Valentine (2014). It is equally important to Myanmar because SMEs are largely distributing to the economy of the country. This study will cover FMCG businesses which are the one of SMEs how they are affected by the financing of a finance company called ShweLan. Specifically, this study is to have a better understanding of the impact of inventory financing on the sale and profitability of the FMCG business in Hlaing Tharyar Township of Yangon. The FMCG businesses are the businesses are customers of ShweLan which received financing from ShweLan in 2019. Inventory Financing is a new financing product in Myanmar and ShweLan could be the first finance company offering this product to the FMCG businesses. Thus, the local sources of information related to this product of the study are rarely available. However, the idea is the same as the study of the impact of other types of financings on other types of businesses so any similar relevant studies can be referred for this study. By this study, it can conclude to understand how impactful the borrowing FMCG businesses' sale and profitability are after a time period of receiving the fund from ShweLan.

2.1 Definition of Inventory Financing

Although inventory financing is defined by many ways in the banking industry the inventory financing most commonly functions like a line of credit, but depending on the lender, it can be more like a term loan. Wholesale & retail businesses and dealerships are the most common types of businesses that use inventory financing. Businesses mostly use inventory financing to cover short-term cash flow gaps, prepare for a busy season, launch a new product or generally grow their sales. (Value penguin) For many businesses such as apparel manufacturers and retailers, demand is seasonal. They require additional working capital at certain times of the year. Before a peak-selling season, retailers borrow to increase store inventory before heavy selling periods, such as a holiday or tourist seasons and repay after those seasons. A business

may also need temporary inventory financing when a major supplier offers a special promotion. Seasonal credit advances are tangled to the operating cycle of the specific business, the product of the borrower, or both. (Comptroller's Handbook, 2000).

2.2 Benefits of Inventory Financing

There will be a certain benefits for working with inventory financing companies. The benefits are "availability of additional liquid cash", "Inventory Financing allows the business not to touch other resources of finance", "bulk orders could negotiate significant discounts from suppliers", "inventory financing can boost sales and business growth", "the process of getting inventory finance is straightforward as compared to other conventional financings" (Chris, 2019).

Dividing net income by net sales generates the profit margin ratio. Through profitability ratios, the firm's efficiency in generating profits can be interpreted. Net sales are obtained by subtracting any returns or refunds from gross sales.

2.3 Review of Related Literature

Several students have completed the researches related to the impact or effect of the financing on various types of industries. Oni, Paiko, and Ormin, (2012) evaluated the contribution of microfinance institutions to the sustainable growth of small and medium scale enterprises in Nigeria. Their findings exposed that MFIs do and could contribute to the sustainable growth of SMEs in the economy. Also, the study showed that microfinances are not at the level of providing sufficient finance to SMEs.

Ojo et al (2009) studied the impact of microfinance on entrepreneurial development in Nigeria. The researcher concluded that microfinance institutions especially in Nigeria are recognized as one of the key players in the financial industry that have greatly impacted on individuals, business organizations, other financial institutions, the government and the economy of the nation at large through the services they offer and the functions they perform in the economy. Oni, and Daniya (2012) tried to investigate the development of SME and the role played by the State and other Financial Institutions, they found out that financial institutions provide the necessary financial substances that facilitate the growth and development of Small and Medium Scale Enterprises, they stressed that, a lot still ought to be done by the

government in terms of policy formulation in order to fulfill and aid the efforts of financial institutions. However, they suggested that micro finance institutions should be established to serve and meet the basic financial needs. Quaye (2011) investigated the effects of Microfinance Institution (MFIs) on the growth of Small and Medium Scale Enterprises (SMEs) in the Kumasi Metropolis. He studied detailed profile of SMEs in the Kumasi Metropolis of the Ghanaian economy, the contribution of (MFIs) to entrepreneurial development, the challenges faced by SMEs in reaching credit and the rate of credit utilization by SMEs. An analysis of the profile of (SMEs) reveals that most (SMEs) are at their Micro stage since they absorb less than six people and the sector is greatly dominated by the commerce sub-sector. The research also explains that (MFIs) have impacted positively on the growth of SMEs. Some of the important contributions of MFIs include; greater access to credit improved and enriched savings and provision of business, financial and managerial training.

Marshall Inebi Valentine(2014) also investigated the impact of financial institutions financing on the small scale industries in Nigeria and placing in proximity the vital economic structure for small scale industrial growth, and uncovering the missing link which might have led to the failure and achievement of some of small scale business in the Nigerian economy. That concluded that Financial institution loan to SMEs are the potential boosters of the impact the SMEs exert on a nation's economic performance.

James Ndirangu Kung'u (2015) examined the effects of working capital management on the profitability of manufacturing firms in Kenya. The study found there is positive correlation between the working capital management and the profitability of the business. Paluku Kazimoto (2016) attempted to establish the level at which selected companies manage their working capital in relation to their financial performance in Kampala. The study concluded that the level of working capital management was low as well and the level of financial performance of selected companies was also low.

Based on the working definition of inventory financing and theories of the benefits of using inventory financing written by Chris (2019), whether the factors of the benefit of inventory financing will impact on the sales and profitability of businesses will be studied in this thesis. The conceptual framework of the study will be as described in figure (2.1).

2.4 Conceptual Framework

Figure (2.1) Conceptual Framework of the study

Independent Variables
▪ Benefits of Inventory Financing o Availability of Additional Liquid Cash o Saving the business for incurring higher interest expense o Easiness of Application

Dependent Variables
✓ Sale ✓ Profitability
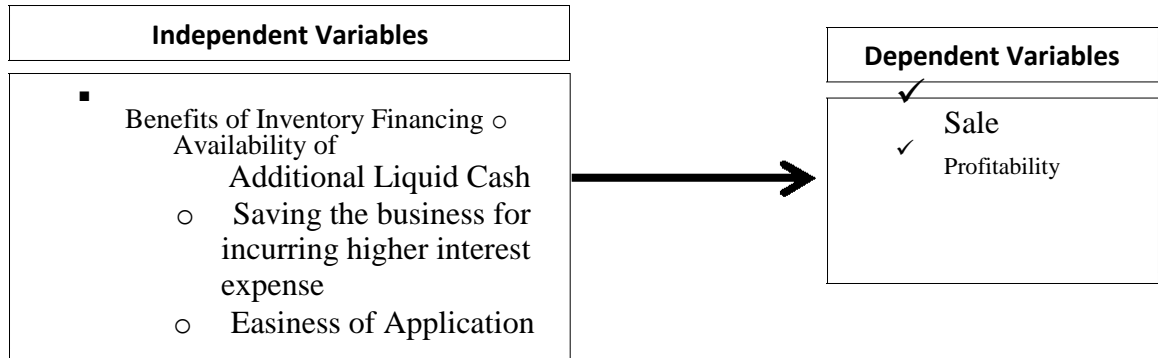
Source: Adopted from Chris (2019)

The conceptual framework shows how businesses using inventory finance could gain an increase in sales and profit. There is a relationship between the benefit of inventory financing which is the independent variable and the sale and profitability which is the dependent variable here. The benefit of inventory financing can be measured as the condition of whether the finance provided is supportive for the availability of additional liquid cash of the business which allows them to buy additional inventory (stock) and improves their cash flows and of whether the inventory financing also saves the business from incurring higher interest expense and of whether the loan application process is simple for its users.

CHAPTER 3

FINANCIAL SERVICES OF SHWELAN

The Central Bank of Myanmar was established as the Union Bank of Burma on 3 April 1948 by the Union Bank of Burma Act, 1947 and took over the functions of the Rangoon branches of the Reserve Bank of India. Its headquarter is located in Naypyidaw, and it has branches in Yangon and Mandalay. The Central Bank of Myanmar became an independent regulatory body by the Central Bank of Myanmar Law which was passed by the Myanmar Parliament in 2013.

CBM has liberalized the financial organizations for competition, efficiency and integration into the regional financial system. As of December 2007, there are 15 domestic private banks and 13 representative offices of foreign banks and three representative offices of foreign insurance companies in Myanmar.
Including state-owned banks, except for microfinance institutions, all financial institutions are under the supervision of the Central Bank of Myanmar. The Central Bank of Myanmar is the governing body issuing operating licenses of the institutions in Myanmar.

Currently, there are a total of 27 private banks in Myanmar. Most of them are headquartered in Yangon. The standard financial services of private banks are deposits, remittance services, lending services. Banks' lending interest rate is capped at 13% per annum and the interest rate for deposits is ranged from 8 to 10% per annum. According to the bank regulations of the Central Bank of Myanmar, private banks are not allowed to do any non-collateralized lending.

There are a total of 5 mobile financial service providers in Myanmar and they were recently emerged to the market with the climb of the mobile penetration in Myanmar. Their major services are electronic payment service and money transfer services.

The Central Bank of Myanmar has issued a license to Myanmar Credit Bureau Limited, allowing it establish a credit bureau in the country, according to a May 17 CBM announcement. Myanmar Credit Bureau, which is a joint venture institution between the Myanmar Bank Association and Singapore's Asian Credit Bureau Holdings will collect information on loan repayment histories and other information on borrowers and distribute the profiles to lenders such as banks and other non-bank financial institutions.

Microfinancing has grown quickly since the country passed the Microfinance Business Law in 2011 allowing microfinancing firms to operate, with some 180 companies now serving 3.4 million clients and a total loan portfolio of K350 billion, according to the Myanmar Microfinance Association (MMFA). Central Bank of Myanmar started issuing permits for non-bank financial institution license since 1996. Now, CBM has issued 29 NBFI licenses to 29 companies as of 2019.

ShweLan is a brand name of a company called Sarine Myanmar Co.Ltd which was found in Yangon in 2018. The vision of ShweLan is to provide access to working capital for micro, small and medium-sized enterprises (MSMEs) in Myanmar. Dana Facility invests in the company for over 1.9 million USD in the project. Partnering with Win Progress Services Co.Ltd which is a None Bank Financial Institution (NBFI) license holder, ShweLan is managing the operations for the lending activities of Win Finance in Myanmar.

3.1 Financial Services of ShweLan

As illustrated in the figure, there are two ways of financing which are supplier finance and buyer finance. ShweLan is planning to offer its financial services among the suppliers and distributors of the whole value chain. The idea is to provide financial services like "invoice discounting", "inventory financing" between suppliers and anchors and to provide "purchase order financing" and "asset financing" between distributors and anchors. At present, ShweLan prioritizes to offer only the inventory financing in Yangon. The rest of the financial services will be offered soon.

Figure (3.1) Financial Services of ShweLan

| | Supplier Finance | Buyer Finance | |
| Sub-suppliers | Suppliers | Anchor | Distributors/ Sub-distributors | Retail |

1	Invoice Discounting	3	Inventory Financing
2	Purchase Order Financing	4	Asset Financing
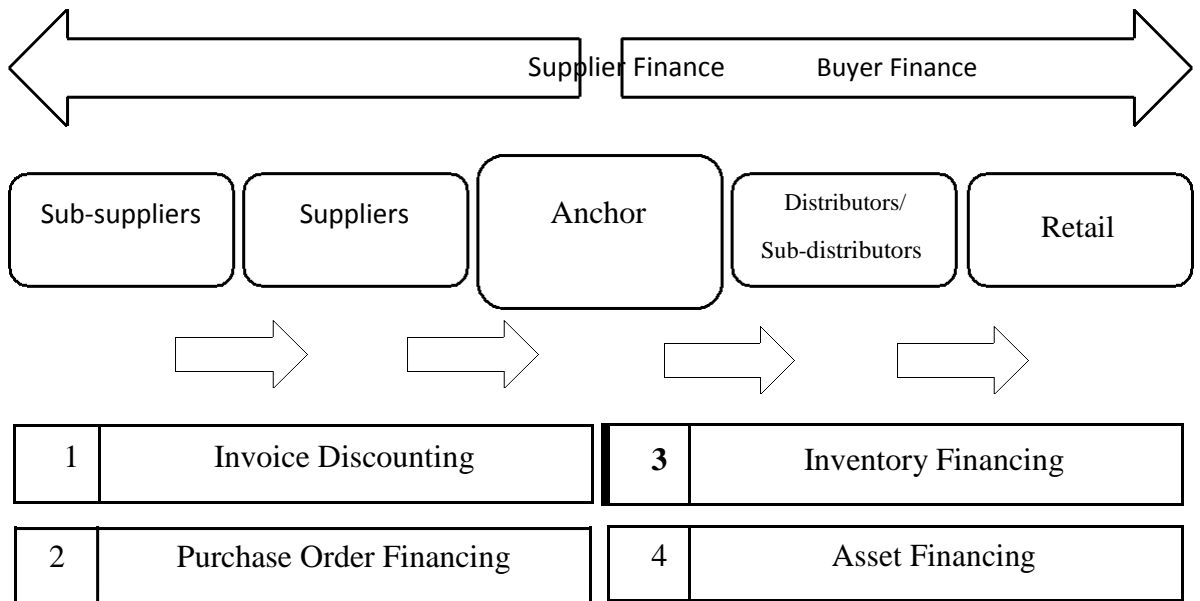
Source: ShweLan Report (2019)

Inventory Financing Service of ShweLan

This service is offered only to FMCG businesses and is considered to offer to other related businesses that has high cash turnovers. Also, the service is offered only in Yangon.

Eligibility Criteria

Before loan application submission, the first thing to check with the customers is to tick the points as written in the table below:

1) Whether the customers have been operating their business in the same location for 2 years

2) Whether their businesses have a minimum daily sale amount as specified in the table

3) Whether they have the required licenses as specified in the table

Table (3.1) Eligibility Criteria

	FMCG Shops	Liquor Store	Restaurant
Years working in the same location	2 years		
Minimal Daily Revenue (MMK)	500K	300K	200K
YCDC License or YCDC pay slip	Required	*Not required*	*Not required*
Liquor License	N/A	Required	Required

Source: ShweLan's Report (2019)

Only after any businesses not going against any restriction specified in the table above, the application will proceed.

Required Documents for the Inventory Finance

The following is the list of required documents and information for the loan application at ShweLan.

The applicant's

1) NRC
2) Household Certificate
3) Ward chief letter
4) House Ownership Documents
5) Bank Statements (if any)
6) Business License (YCDC license/Liquor License)
7) Purchase Vouchers (last 30 days) or accounting notes or any supportive records
8) Any other supporting documents
9) bank account
10) Ward chief's contact number
11) Contact numbers of any 2 (two) friends or neighbours

The guarantor's

1) NRC

2) Ward chief letter

3) Any evidence for source of income/Business License

Interest rate, Loan Tenor, Fees and Repayment Frequencies

The interest rate for the inventory finance is at 3% declining with a maximal tenor for 6 months. 1% of processing fee and 0.5% for stamp duty of each loan-disbursement is applied. Repayment frequencies for the loan have the option of the monthly repayment, fortnightly repayment, and weekly repayment.

Table (3.2) Sample Loan and Repayment Amounts

Loan Amount (MMK)		3,000,000	5,000,000	8,000,000	10,000,000	15,000,000	30,000,000
Repayment Frequency (6 month-loan)	Weekly (25 repayments)	131,000	218,000	349,000	436,000	655,000	1,310,000
	Fortnightly (12 repayments)	273,000	455,000	728,000	910,000	1,365,000	2,730,000
	Monthly (6 repayments)	553,000	921,000	1,474,000	1,843,000	2,765,000	5,530,000

Source: ShweLan Report (2019)

Application Submission

The pictures of the required documents and information can be delivered through the Viber app in the first stage. Once the information is received, the application form will be filled and submitted with the help of ShweLan's staffs. Or the applicant can submit its application at ShweLan's office in person.

Processing Time and Disbursement

The typical processing time for an application takes up to 4 weeks from the date of application submitted. After the application is submitted, the credit analysis team will schedule to site-visit the location of the shops. During the site-visit, the original documents of the application are verified and the purchase vouchers and any related documents are collected. When the loan application is approved, the

applicant(s) and guarantor(s) will need to come to ShweLan office for signing the loan agreement. Once it is signed, the disbursed amount of loan is transferred to the bank account of the borrower by the disbursed date specified in the agreement.

Collection & Late Fee

Telephone calls reminders are done with all the customers for repayments 2 (two) days before the payments are due. The repayments have to be transferred or deposited into the bank account of ShweLan. Penalty fee (calculated based on 6% monthly interest rate on the amount of outstanding balance of the loan) is applied for any late payments.

The due dates in the repayment schedule are adjusted to the dates when there are bank operations.

Table (3.3) Sample Monthly Repayment Schedule

Monthly Repayment	Due Date	Outstanding	Principal Payment	Interest Payment	Total Installment
Disburse	5 Dec 2019	7,000,000	0	0	0
1	3-Jan-2020	5,833,333	1,166,667	125,871	1,292,538
2	3-Feb-2020	4,666,667	1,166,667	123,333	1,290,000
3	4-Mar-2020	3,500,000	1,166,667	123,333	1,290,000
4	3-Apr-2020	2,333,333	1,166,667	123,333	1,290,000
5	4-May-2020	1,166,667	1,166,667	123,333	1,290,000
6	2-Jun-2020	0	1,166,667	123,333	1,290,000

Source: ShweLan's Report (2019)

3.2 ShweLan's Clients

All FMCG retail businesses (except for the corporate-owned retail business chains such as ABC, G&G) in Myanmar are an individual or family-owned type of business. The shops can be owned by business owners themselves or on rental. They can be shops attached to the house and shops in the market. Their operation hours are

mostly 8:00 to 22:00. As listed in the table below, the FMCG retail businesses sell those categories of products.

Table (3.4) Typical Goods Sold in FMCG Retail Shops

Product Category	Examples of sub-categories
Beverages (Alcoholic)	Beer Whisky Wine
Beverages (Non-Alcoholic)	Fruit or Vegetable Juices Ready to Drink Coffee Ready to Drink Tea Soft Drinks
Confectionery	Biscuits Bread Chocolates Pastries
Packaged Foods	Breakfast Cereals Instant Noodles Sardines
Personal Hygine Products	Bath and Shower Products Haircure Products Laundry Products Mouthwash Toothbrushes Toothpaste
Tobacco	Cigarettes Cigars Tobacco

Source: PricewaterhouseCoopers(pwc)Report (2018)

In Myanmar, the main distribution channel for those goods is through wholesalers located in each or nearest township of the region. Another distribution channel is the direct sale from manufacturers of goods. Most of the distributors provide sale on credit (the term can be up to a month) depending on the type of products. However, the credit is limited to a volume of purchase. Thus, most retail

businesses do not receive credit from the distributors due to incapability for purchase of a certain volume and also sometimes they do not want to take the credit purchase from the distributors because their purchase volumes do not give a significant advantage out of that and additionally that makes the cash collection of the distributors more complex and they do not want to tie with sourcing goods from a single supplier.

According to industry experts, the formation of an FMCG retail business is simple unless that will sell alcoholic beverages which require the shop to have a liquor license and said a typical shop selling only non-alcoholic selling goods can be formed with an initial investment of MMK 5 million. For the one which is selling alcoholic-beverages will be up to 15 million MMK depending on varieties of goods and the volume of inventory stored in the shop. Generally, any similar shop operating in Yangon will need to have Yangon City Development Committee (YCDC) license or need to pay an annual fee for YCDC.

The common reason for funding need for the FMCG retail business is to buy a large volume of inventories during the festival time or in high season. During festival times, their turnover is high as people buy a larger volume of goods so that they need to store a large volume of stocks. Also, in high season, they are usually offered promotional items from the distributors. Thus, there will be opportunities for them to unlock the promotion (volume discount) by purchasing a certain volume of inventories if they have additional reserved fund. For example, alcoholic beverages offer seasonal attractive promotions.

In ShweLan's customers, it can be divided into two types of businesses-one is businesses not selling liquors and another is the one which includes liquors in its selling items. Among the customers, there are restaurants, beer stations, liquor stores, grocery stores, convenience stores and all of them are selling FMCG products. Most of their selling goods are beverages, packaged foods, confectioneries, personal hygiene products, tobacco etc. For restaurants and beer stations, there are 5-20 employees depending on the size of the business while there are only 1-5 employees for liquor stores and other non-liquor stores. For non-liquor and liquor stores, their daily sale revenue is ranged from 400K MMK to 1.5million MMK with an average gross profit margin at 10%. For restaurants and beer stations, it is as high as 30% to

50% as gross profit margin with a range of daily sale revenue from 300K to 1 million MMK.

Business License

All of them have valid business licenses such as YCDC license or YCDC tax receipt slip and liquor license. Most of them have the license with the name of the current owners of the business and some of them have the one with their parents' name or previous business owners' names.

Their year of operation in the location has a minimal of 2 years because ShweLan considers only working with businesses which have been operating in the same location at least for 2 years. Their average daily operation hour is 10 hours a day. The operation hours can be varied depending on the type and size of the shop.

Almost all of the customers of ShweLan do not have branches. Most of them are operating in owned land and building of the locations. For those who are operating in rental, they have been doing business for a period of at least 3 years in the same locations.

As mentioned in the table of ShweLan's customers, there are a total of 18 customers in Hlaing Tharyar Township. As shown in the chart, the percentage of customers operating in owned shops and in rented shops are equally contributing to the chart and also same for the type shops where liquor is available and liquor is not available as shown in the figure. Looking at their average daily sale (revenue), the highest portion for the chart is sale revenue of between 1 million Kyats and 1.5 million Kyats representing nearly 40%. There is only one shop which has a sale of nearly 2 million Kyats a day having nearly 6%.

Their average profit margin is as low as 10% which are shops which sells not only liquor but also non-liquor products. There is over 60% of the shops having 10% average profit margin while restaurants and beer stations are getting a much higher profit margin like 30-50%.

Table (3.5) ShweLan's Clients in Yangon

No.	Townships	Non-Liquor Shops	Liquor Shops
1	Botahtaung	0	1
2	Dagon Seikkan	3	0
3	Dawbon	0	1
4	East Dagon	2	10
5	Hlaing	1	5
6	Hlaing Tharyar	5	13
7	Kyauktada	0	1
8	Lanmadaw	0	1
9	Mayangone	0	5
10	Mingalar Taung Nyunt	1	1
11	North Dagon	1	5
12	North Okkalapa	3	18
13	South Dagon	1	5
14	South Okkalapa	2	17
15	Tarmwe	0	1
16	Tharketa	0	2
17	Thingangyun	1	2
	Total	20	88

Source: ShweLan Report (2019)

3.3 ShweLan's Clients in Hlaing Tharyar Township

In Hlaing Tharyar Township, there are 50% of ShweLan's clients who are operating their business in owned shops and another half of clients who are operating in the rental.

Figure 3.2 Owned Shop Vs Rentd Shop
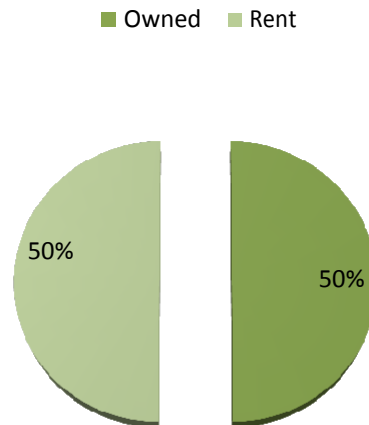
Source: ShweLan Report (2019)

There are two types of the shop for ShweLan's clients in Hlaing Tharyar Township which are those selling liquor (50%) and those not selling liquor (50%).

Figure 3.3 Classification of The Shop
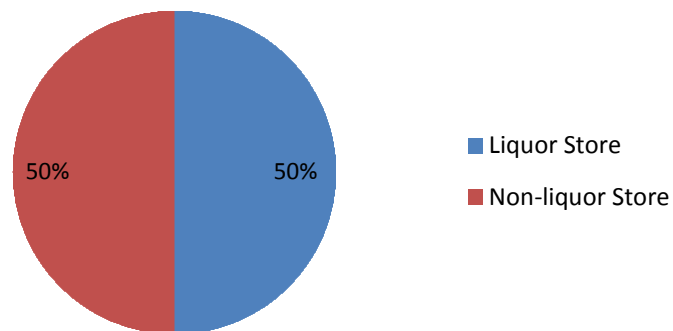
Source: ShweLan Report (2019)

Figure 3.4 Number of Employees of Shops

■ 0-2 employees	
■ 3-5 employees	
■ 6-10 employees	
■ Above 10 employees	
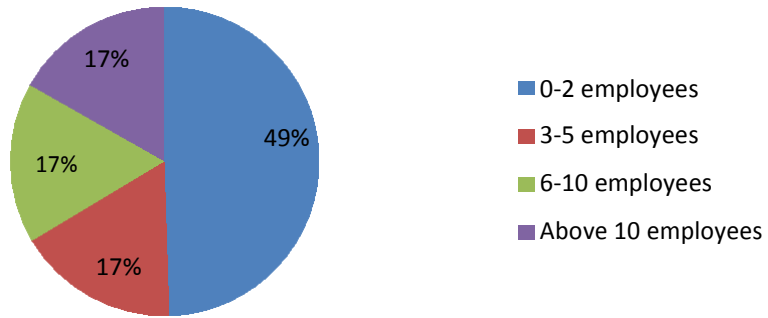
Source: ShweLan Report (2019)

According to the above figure, Most of the shops do not have many employees. 50% of the shops have only 0-2 employees followed by shops having 3-5 employees, 6-10 employees and over 10 employees have nearly 17% for each range.

Figure 3.5 Daily Sale Revenue of Shops (MMK)

■ Below 500K	
■ 500K and 1M	
■ 1M and 1.5M	
■ 1.5M and 2M	
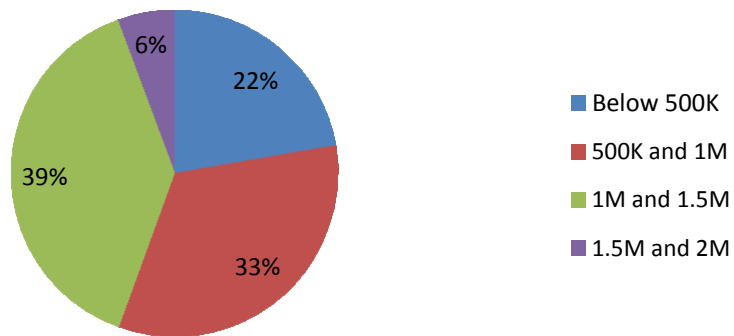
Source: ShweLan Report (2019)

As shown in the above figure, among the clients from Hlaing Tharyar Township, most of the shops have a daily sale revenue of 500,000 MMK to 1,000,000 MMK with 33% while the shops which have 1,500,000 MMK to 2,000,000 MMK has only 6% and 39% for 1,000,000 MMK to 1,500,000 MMK and 22% for below 500,000 MMK.

As illustrated in the above figure, the FMCG retail shop's average profit margin is mostly 10% with 61% whereas the maximal average profit margin (50%) especially for beer stations and restaurants represents only 6%.

Figure 3.6 Average Profit Margin of Shops
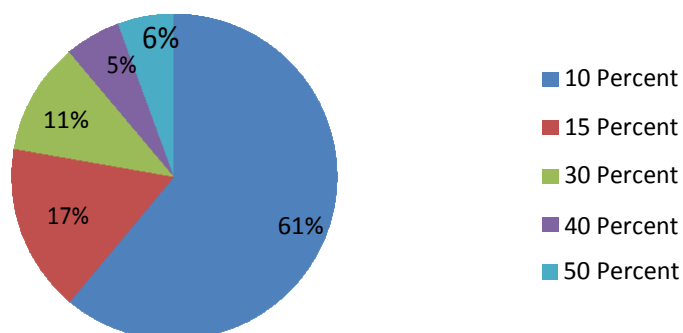
Source: ShweLan Report (2019)

The table below represents the amount of loan received by the clients from Hlaing Tharyar Township.

Table (3.6) Loan Amounts of Clients in Hlaing Tharyar Township

Amount of Finance Received (million MMK)	No.	Percentage
3-5	7	39%
5-7	2	11%
7-9	2	11%
10-12	7	39%
Total	18	100%

Source: ShweLan Report (2019)

As listed in the table, most of the borrowers received a relatively large amount of funds for small businesses and the majority of businesses borrowed from 3 million MMK to 5 million MMK and from 10 million to 12 million MMK representing 39% for each category. The minority of the respondents received a range of 5 million MMK to 9 million MMK contributing 22% in total.

CHAPTER 4

ANALYSIS ON THE IMPACT OF INVENTORY FINANCING ON THE SALES AND PROFITABILITY OF FMCG BUSINESSES

This chapter will include the analysis and results of how the ShweLan's inventory financing impacts on the performance (sale & profitability) of its customers in Hlaing Tharyar Township in Yangon.

4.1 Research Design

The type of research aim here is explanatory research to examine how the benefits of inventory financing (cause) impact on the performance (effect) of the borrowers of ShweLan. Since the research is to test a theory of financing impacts the performance of the firms, this is a type of deductive research aims. The study focused only on ShweLan's customers (shops) located in Hlaing Tharyar Township and it took only a day.

In this study, both primary data and secondary data were applied for analysis in the study. The secondary data is sourced from ShweLan. Within a limited timeframe, a specific group of ShweLan's customers were considered to conduct a telephone survey. Jotform software was used to create the survey questionnaire because the researcher finds that is user-friendly software. Since the answers of the respondents can be uploaded and can be downloaded easily through the application, it saves time for data entry. Likert scale questions, which are the most widely used tools in researching popular opinion, were prepared in the survey. 5 point Likert scale (1=disagree and 5=agree) was designed for the questions because it has been most recommended by the researchers that it would reduce the frustration level of patient respondents and increase response rate and response quality. The survey consisted of 12 Likert scale questions,2 multiple-choice questions and 1 yes-no question. There are a total of 18 clients of ShweLan in Hlaing Tharyar Township and all of them were recruited for the survey and surveys were completed by all of the respondents through the phone.

For the analysis part of the study, the researcher sourced the information of the respective customers from ShweLan's internal database. After cleaning the available

data, it was interpreted for the characteristics of the demographics of the respondents. The survey results were downloaded in Jotform, and excel was applied to compute mean, standard deviation and regression statistics and to interpret the data. The researcher is more familiar with the excel application than other applications like SPSS and also finds excel is the most suitable application to generate the required results for this study.

4.2 Demographic Characteristics of Respondents

As discussed, there are a total of 18 respondents for this study and all of them are the business owners of FMCG businesses, who are the borrowers of ShweLan received the inventory finance (loans) in 2019. The shops are located in Hlaing Tharyar Township in Yangon.

Table (4.1) Gender of Respondents

Gender	No.	Percentage
Male	7	39%
Female	11	61%
Total	18	100%

Source: Survey Data (2019)

Generally, females are more comfortable to involve in borrowing activities. As shown in the table, the contribution of the female is more than male representing 61% in the study while there are only 39% for male.

Table (4.2) Age Group of Respondents

Age	No.	Percentage
Below 30	1	6%
30-35	4	22%
35-40	4	22%
40-45	5	28%
45-50	3	17%
50-55	1	6%
Total	18	100%

Source: Survey Data (2019)

The age range of participants in this study is mostly a middle age group (40-45) with 28% followed by two lower range age group (30-35 & 35-40) presenting 22% for each group and there are only significantly 6% for the respondent aged below 30.

Table (4.3) Marital Status of Respondents

Marital Status	No.	Percentage
Single	3	17%
Married	13	72%
Divorced	2	11%
Total	18	100%

Source: Survey Data (2019)

Out of the total 18 borrowers, most of them are married contributing 72% followed by 11% for single and the least is divorced-respondents with only 11% in the survey.

Table (4.4) Education Level of Respondents

Education	No.	Percentage
Secondary	3	17%
High School	4	22%
Degree	11	61%
Total	18	100%

Source: Survey Data (2019)

As represented in the table, most of the respondents in the survey are graduated contributing 61% followed by high school education and secondary education with 22% and 17% respectively.

Table (4.5) Household Size of Respondents

Household Size	No.	Percentage
0-2	3	17%
2-4	14	78%
4-6	1	6%
Total	18	100%

Source: Survey Data (2019)

The majority of the household size of the respondent for this study is average household size (2-4) having 78% while there are only 6% for household size (4-6) and 17% for the smallest household size (0-2).

4.3 Results and Discussion

In this section, the results of survey data will be represented and discussed.

Table (4.6) Cash Liquidity

Cash Liquidity	Mean	Standard Deviation
Availability of Additional Liquid Cash	4.12	0.58
Not to touch other source of financing	3.76	0.55
Sufficiency of Fund	3.47	0.70
Overall Mean	3.78	

Source: Survey Data (2019)

Findings in the table (4.6) with regard to liquidity, the results indicated that most of the borrowers agreed (Mean=4.12, SD=0.58) that the availability of additional liquid cash is improved due to the inventory financing among all the shops. However, the customers less agreed (Mean=3.76, SD=3.76) on the fact that the inventory finance makes them no longer sourcing from other sources of finance. One of the reasons why they still need to source from any other source of finance is the amount of inventory finance received was not sufficient representing Mean=3.47, SD=0.7). In overall, the liquidity management of their businesses was good due to the inventory financing. (Mean=3.78).

Table (4.7) Cost Saving

Cost Saving	Mean	Standard Deviation
Being Lower Interest Rate	3.29	0.46
Saving Interest Expense	3.59	0.60
Receiving Inventory at Lower Price	3.59	0.49
Fairness of Interest Rate	3.24	0.42
Overall Mean	3.43	

Source: Survey Data (2019)

Regarding the cost-saving on interest expense and cost of the stocks incurred by the shops, the respondents relatively agreed (Mean=3.59, SD=0.6) that they saved some of the interest expenses for the funds spent in their businesses because they mentioned that informal lenders are lending non-collateralized loans at 5-8% depending on the size of the loans. As for the fact whether, due to the inventory financing, the borrowers were able to purchase the stocks at discounts for the larger purchase of volume, some of the customers agreed (Mean=3.59, SD=0.49) but their feedback on that was most of their purchases happened during high season where they can't purchase the goods at any discount and even they were at a higher price due to higher demand in the high season. They agreed less (Mean=3.29, SD=0.46) that ShweLan's offers loans at a lower interest rate since they responded that there are a few microfinance institutions offering similar loans at lower interest rates than ShweLan's. Due to that point, the responses to the question of whether ShweLan's interest rate is fair were just above average. (Mean=3.24, SD=0.42). However, to an extent, the borrowers of ShweLan from Hlaing Tharyar agreed (Mean=3.43) they saved the expense of interests and stocks during the terms of 2019.

Table (4.8) Easiness of Application

Easiness of Application	Mean	Standard Deviation
Straightforward Process	2.65	0.48
Fairness Processing Time	2.82	0.38
Fairness of Required Documents	2.76	0.42
Fairness of Tenor	2.71	0.46
Overall Mean	2.74	

Source: Survey Data (2019)

Obviously, the results related to the questions of how ShweLan's loan application is easy for the respondents indicated that they find it was not easy (Mean=2.65, SD=0.48) process and the processing time was long (Mean=2.82, SD=0.38). Also, they gave feedback on the required documents that the required documents needed during the loan process were slightly more (Mean=2.76, SD=0.42) than what they expected. Lastly, they suggested the tenor (maximum 6 months) should be longer (12 or 18 months) which other institutions are offering. Overall, the customers of ShweLan from Hlaing Tharyar were not happy about the process of the application. (Mean=2.74)

The relationship between the inventory financing and the performance (sales) of the business

As indicated in Table (4.9), there is the positive and moderately significant relationship (r = 0.411, p = 0.090) between the use of inventory financing and the performance (sales) of the clients in Hlaing Tharyar. The study findings imply that if the level of the inventory finance is high, then the level of the performance becomes high. Further analysis to determine the extent of the relationship between inventory financing and performance of the customers of ShweLan in Hlaing Tharyar based on the coefficient determination (r2 = 0.169 x 100) implies that inventory finance contributes 16.9% to the performance (sales) of the borrowers in Hlaing Tharyar. The remaining 83.1% is as a result of other factors that were not considered in this study which still needs to be established. This may mean that other factors are contributing much to the performance of the businesses in Hlaing Tharyar Township.

Table (4.9) Regression Statistics

Regression Statistics	
Multiple R	0.411
R Square	0.169
Adjusted R Square	0.117
Standard Error	0.645
Observations	18

 Source: Survey Data (2019)

The Significance F value gives an idea of how reliable (statistically significant) your results are. If Significance F is less than 0.05 (5%), your model is OK. If it is greater than 0.05, it would need probably better choose another independent variable. As shown in Table 4.10, the Significance F value is 0.090 (9 %) which is not OK. So, it would need to choose another independent variable.

Table (4.10) Regression ANOVA of the inventory financing and the performance (sales)

	df	SS	MS	F	Significance F
Regression	1	1.351	1.351	3.252	0.090
Residual	16	6.649	0.416		
Total	17	8			

Source: Survey Data (2019)

For hypothesis-testing results from Table (4.11) provide P-value of 0.090 which was higher than 0.05 (level of significance). The null hypothesis that stated that there is a significant relationship between inventory financing and performance (sales) of the FMCG businesses was therefore accepted and the alternative one was rejected. This implies that there was no significant relationship between the inventory financing and performance (sales) of the FMCG businesses. This meant that if the inventory financing were high, then the performance (sales) would not yield positive results.

Table (4.11) Regression Coefficients of the inventory financing and the performance (sales)

	Coefficients	Standard Error	t Stat	P-value
Intercept	-1.532	2.702	-0.567	0.579
Benefits	1.486	0.824	1.803	0.090

Source: Survey Data (2019)

The relationship between the inventory financing and the performance (profitability) of the business

Table (4.12) Regression Statistics

Regression Statistics	
Multiple R	0.506
R Square	0.256
Adjusted R Square	0.209
Standard Error	0.446
Observations	18.000

Source: Survey Data (2019)

As indicated in Table 4.12, there is a positive and moderately significant relationship (r = 0.506, p = 0.032) between the use of inventory financing and the performance (profitability) of the borrowers in Hlaing Tharyar. The study findings imply that if the level of the inventory finance is high, then the level of the performance becomes high. Further analysis to determine the extent of the relationship between inventory financing and performance of the customers of ShweLan in Hlaing Tharyar based on the coefficient determination (r2 = 0.256 x 100) implies that inventory finance contributes 25.6% to the performance (profitability) of the borrowers in Hlaing Tharyar. The remaining 74.6% is as a result of other factors that were not considered in this study which still needs to be established. This may mean that other factors are contributing much to the performance of the shops in Hlaing Tharyar Township.

Table (4.13) Regression ANOVA of the inventory financing and the performance (profitability)

	df	SS	MS	F	Significance F
Regression	1	1.095	1.095	5.502	0.032
Residual	16	3.183	0.199		
Total	17	4.278			

Source: Survey Data (2019)

The Significance F value gives an idea of how reliable (statistically significant) your results are. If Significance F is less than 0.05 (5%), your model is OK. If it is greater than 0.05, you'd probably better choose another independent variable. As shown in Table 4.11, the Significance F value is 0.032 (3.2%) which is OK.

Table (4.14) Regression Coefficients of the inventory financing and the performance (profitability)

	Coefficients	Standard Error	t Stat	P-value
Intercept	-0.767	1.870	-0.410	0.687
Benefits	1.338	0.570	2.346	0.032

Source: Survey Data (2019)

For hypothesis-testing results from Table (4.14) provide P-value of 0.032 which was less than 0.05 (level of significance). The null hypothesis that stated that there is no significant relationship between inventory financing and performance (profitability) of the FMCG businesses was therefore rejected and the alternative one was accepted. This implies that there was a significant relationship between the inventory financing and performance (profitability) of the shops. This meant that if the inventory financing were high, then the performance (profitability) would yield positive results.

CHAPTER 5
CONCLUSION

This chapter includes a brief discussion on the findings of the survey data, and recommendations of this study and the need for further study.

5.1 Findings

The research aimed to examine the financial products of ShweLan and to analyze the impact of its inventory financing on its customers' performance (sales & profitability) in Hlaing Tharyar Township of Yangon. Based on qualitative and quantitative analysis of how ShweLan's inventory finance was impacted on the performance of its borrowers, the background of ShweLan and its financial services has thoroughly been discussed and the findings of how its customers (FMCG businesses) thought of the inventory finance impact on their sales and profitability have clearly been evaluated. Through the discussions and evaluation, it can be concluded that ShweLan is a young and very first financial institution offering non-collateralized working capital financing (specifically inventory financing) to small businesses (FMCG shops) in Yangon and it is planning to offer other related products to businesses related to its business model. With regard to the results (R and R Square Value) of the data analysis, it can also be summarized that the benefit of the inventory financing is truly impacting on the sale & profitability of the shops. Permission to access the data information of ShweLan and its data availability has helped to analyze ShweLan easily and the approach of quantitative research method and design made the study smoother than expected. The use of Jotform application and Microsoft Excel was effective in the data entries and data analysis for the data collected. Telephone surveys with the small sample size of the respondents could save a lot of time.

5.2 Recommendations

With regards to the survey results, it was found that the overall mean score was below average (2.74). Thus, ShweLan needs to improve application processing time for loan-application for each client. Also, ShweLan should review the interest rate charged to its clients for the inventory financing because the overall result for the questions related to "Cost Saving" was just above average (3.43), where the result of

"Fairness of Interest Rate" indicated just above average (3.24) followed by (3.29) for "Being Lower Interest Rate". Moreover, ShweLan should improve the sufficiency of funds disbursed to each of its clients as the mean for the question of "Sufficiency of Fund" was just above average (3.47).

5.3 Need for further study

Based on these conclusions, the practitioner should consider evaluating about not only ShweLan but also any other similar institutions existing in the market. To better understand the implications of these results, future studies could address how the inventory financing could impact on the performance of other types of business (this study focuses on FMCG shops) or how other types of ShweLan's financing product (like invoice discounting) (if implemented) has a relationship with the performance of its customers. This research focused on a specific township (Hlaing Tharyar) of Yangon where a group of FMCG shops of ShweLan exists. Future studies to address the wider geographic area (maybe the whole Yangon) is recommended.

Lastly, ShweLan and its products were identified and the impacts of its service on its clients were analyzed. The findings of the results could bring a better understanding of working capital financing (inventory financing) and of how its impact on the sales & profitability of FMCG business which is a gap between this research and the previous studies.

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Questionnaire-ShweLan Customers in Hlaing Tharyar Township

1. Business Name

[   ]

2(a)Was the inventory finance used only for inventory purchases, not other purchases?

Yes

No

2.(b)If inventory finance was not used for the inventory purchase, what was it be used for?

To renovate the shop

To pay for license renew fee

To pay for rental fee

To support family need

[   ]

3.After receiving the inventory finance, the availability of additional liquid cash at your shop is greater than before.

        1 2 3 4 5

Disagree   Agree

4.The inventory finance allows your business not to touch other resources of finance.

        1 2 3 4 5

Disagree   Agree

5.The loan amount provided for the inventory finance is sufficient for your shop.

        1 2 3 4 5

Disagree   Agree

6.The interest rate of ShweLan's inventory financing is lower than that of other sources of finance.

1   2   3   4   5

Disagree   Agree

7.The inventory financing makes you save from incurring higher interest expenses for higher interest rate loans.

1   2   3   4   5

Disagree   Agree

8.Due to inventory finance, you can purchase more inventory so the cost of the inventory is cheaper because discounts can be received for more inventory purchases.

1   2   3   4   5

Disagree   Agree

9.The interest rate of the inventory financing from ShweLan is fair for your outlet.

1   2   3   4   5

Disagree   Agree

10.The process of inventory financing is straightforward as compared to other conventional financing.

1   2   3   4   5

Disagree   Agree

11.The processing time of the inventory financing from ShweLan is fair compared to other financing services.

1   2   3   4   5

Disagree   Agree

12.The required documents of the inventory financing from ShweLan is fair compared to other financing services.

1   2   3   4   5

Disagree   Agree

13.The tenor of the inventory financing from ShweLan is perfect for your business opportunities.

1   2   3   4   5

Disagree   Agree

14.How much average percentage of the total sale (revenue) of the shop increased in a month just after the inventory financing is received?

0-5%

5-10%

10-20%

20-30%

30% and more

15.The inventory finance can boost your sales and profitability of the shop.

1　2　3　4　5

Disagree　　　　　　　Agree

Submit Survey