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# Analysis of Logistics Finance in Small and Medium-sized Enterprise Financing in Electronic Commerce

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### KEYWORDS

Logistics finance,  
Electronic commerce,  
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### ABSTRACT

The small and medium-sized enterprises is the main component of our country economy, electronic commerce is an important part of modern business model, the majority of China's e-commerce businesses are SMEs, in the electronic commerce environment, survival and development of e-commerce are both plagued by funding, lacking of adequate collateral, the enterprise unable to obtain sufficient funds for development. The paper using the method of contrast to study the financing channels, the credit system, financial institutions, private lending in SMEs and large enterprises, describing reasons for SMEs' financing difficulties, analyzing the advantages of logistics enterprises in the financial derivatives, using the inventory financing way in the logistics finance to solve the financing difficulties for the small and medium-sized enterprise, providing sufficient funds for small and medium-sized e-commerce businesses.

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## 1 Introduction

Small and medium-sized enterprises are an important force in the national economic development, in China, the small and medium-sized enterprise occupies countrywide registered enterprise total 99%, the gross value of industrial output, sales revenue, implementation profit tax, export volume has accounted for 60% of the country, 57%, 40%, and 60%, especially in the field of circulation, small and medium enterprises occupy the national retail outlets in more than 90%. In addition, small and medium enterprises also provide about 75% of the urban employment opportunities, the importance of SMEs is very obvious. Electronic commerce is the business activities as the main body, based on the computer network, electronically as means, the business activities conducted within the limits permitted by law, it is an important supplementary means of the modern business model, in the Internet age, and the development the electronic commerce is very swift and violent. Electronic commerce reduce market "imperfect competition" level by raising the market efficiency and market transparency, by improving the management and transaction efficiency, reduce management and transaction costs, "close" the service distance, causes the enterprise the organization cost and transaction cost to drop at the same time, providing a good basis of survival for many SMEs.

Although small and medium-sized e-commerce businesses on the one hand reduce operating costs through e-commerce, also provides many employment opportunities for socio-economic and social stability on the other hand, they are facing much pressure

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because of the scale of the enterprise, capital and market competition problems, whether the enterprise can have the development needs of the external funding will need to rely on financing to achieve, how to obtain financing becomes the important problem that enterprises have to face. In this context, logistics and financial services came into being.

Logistics finance is to reduce transaction costs and risks, financial institutions cooperate with logistics enterprises, locking control or closed management on the logistics and capital flow in the operating process of the enterprise funds, commodity procurement, sales and return business, to provide financing activities for enterprises as the basis on the value of goods in circulation. Stock pledge is an important form of logistics and financial, Inventory financing refers to the borrowing enterprise will have its own variety of goods as security, provide the pledge to lenders such as banks and other financial institutions, deliver the pledge to legal custody of movable qualified logistics companies (intermediaries), in order to get loan.

There is much research on the theory of logistics finance and stock pledge both in domestic and international. Friedman, Albert, Raymand, Dunham and Eisenstadt summed up the legal atmosphere, business model, storage methods, monitoring methods and technical processes of inventory financing in the logistics and finance; Cheng Xiangfeng, Zhu Daoli divided the mode of operation according to the depth of the participation of the banking financial institutions, including asset circulation mode, capital circulation pattern and the integrated mode of three kinds of different pattern; Tu Chuan considered the mode of operation and advantages of pledge financing in the conditions of logistics enterprises involved in, proposed financing institutions and logistics companies together to build a shared information system and build more targeted credit guarantee system and integrated credit mode.

It can be seen from the above literature, the logistics finance can effectively help SMEs solve their financing problems, and also help banks to improve efficiency in the use of funds, reduce the risk of loans. Through the development of inventory services, logistics companies can provide better services for small and medium-sized enterprises and achieve a reasonable profit at the same time, stronger focus on the customer resources.

## **2 Analysis of the Financing Problem of Small and Medium-sized E-commerce Businesses**

It is not accidental for small and medium-sized e-commerce businesses to face financing difficulties, nor is it a simple question, the cause of the problem is the combination of multiple factors.

### **2.1 Different point of small and medium-sized e-commerce businesses and large enterprises**

Compared with large enterprises, SMEs are born weak position, while small and medium electronic commerce have the characteristics that different from the traditional small and medium enterprises. The gap between small and medium-sized e-commerce businesses and large enterprises are mainly reflected in:

- (1) Enterprise scale small, poor foundation. Compared with large enterprises, small and medium-sized e-commerce business is generally small-scale, enterprise infrastructure basically no, the enterprise often can only manage a few varieties of goods, and business is very small, single source of profits, small fixed assets.
- (2) Poor supply chain management ability; market share cannot have an impact on market competition. Compared with Jingdong Mall, VANCL, Dangdang.com and other large-scale electronic business enterprises, small and medium-sized e-business enterprises lack of effective supply chain management, or even impossible to establish their own supply chain, lack of stable supply chain, the lack of a common market channels, market share is very small, basically no influence on the entire e-commerce market, unstable living space.
- (3) Low commercial credit. Small and medium-sized e-commerce businesses in the course of business due to the small scale of business, low business volume, cooperation with the banking business is less, not like the large-scale e-commerce businesses to form a good inter-bank lending relationships, leading enterprises in the bank's commercial credit value is low, lacking of basis for the assessment while in the evaluation of financing risk, so that, the bank dare not to lend money.

### **2.2 Analysis of the financing channels for small and medium-sized e-commerce businesses**

At present, our country small and medium-sized e-business enterprise financing channel basically existing financing channel and guarantee mechanism in two aspects.

- (1) Financing channel is narrow. It can be seen from the above comparison, the small and medium-sized e-commerce businesses are facing difficulties in the choice of financing channels. Financing channels for enterprises are mainly two: bank financing and private financing. Bank financing can get lower interest rates and long-term stable funding, the development of enterprises is very favorable, but because of the low commercial credit, small scale, lacking of innovation, the bank will improve the risk values, for its own funds safety and return to consider, which leads to difficulties in financing; private financing often has a strong profit-driven, relatively poor stability, enterprise financing is relatively small, usually short term financing, investors will not hesitate to take away funds once get the profit or investment in other projects are more profitable, it is very unfavorable for the development of enterprises. In addition, the modern enterprises listing and financing channels are not feasible for small and medium-sized e-commerce businesses, the approval of listed companies are very strict, small and medium-sized e-commerce businesses cannot achieve this requirement.
- (2) Guarantee mechanism is not perfect. SMEs are not available for mortgages fixed assets, the bank considers the security of the

loan funds, and they will not lend the money to the enterprise unless certain guarantee agency guarantees. Small and medium-sized e-commerce enterprises are not strong enough to provide for their own security. Therefore, they must find an appropriate guarantee agency. E-commerce itself is a very flexible business model, many small and medium-sized e-commerce businesses may not have a fixed office space, there is no fixed good partner, there is no enterprise left to provide security. In addition, the guarantee agencies due to lack of adequate understanding of e-commerce market environment, are unwilling to assume the guarantee of e-commerce businesses.

### **3 Mode of Operation of the Logistics Finance in the Financing**

E-commerce businesses due to their own conditions cannot use the way of mortgage of fixed assets to obtain financing, professional security agencies were reluctant to provide security for e-commerce business loans, logistics enterprises as an important cooperative partner of e-commerce businesses, has a very significant advantage. Most of the steps in the e-commerce activities can be completed on the network, only the transfer of ownership of the goods through the logistics, logistics enterprises also because of contacts with the market closely, they know enough about the market environment of e-commerce businesses, therefore, the logistics enterprises has the advantage be richly endowed by nature in the implementation of logistics finance for small and medium business enterprise financing. Logistics financial operation pattern mainly has two kinds.

#### **3.1 Inventories pledged mode**

Almost all of the electronic commerce enterprise is current business, purchased from vendors, and sales to demand, this means that companies must have sufficient funds to purchase supplies suppliers, and after the fare increase to the demanders. Under the inventory model, enterprise stored inventory goods as pledged goods in warehouses in logistics company, then by virtue of the logistics company issued warrants to the bank for loan financing, banks provide a certain amount of the loan according to the value of the collateral and other relevant factors.

Electronic commerce enterprise itself has no production capacity, could not produce the goods, and the lack of procurement funds, they don't have enough goods to pledge, in this case, may be provided by a supplier or logistics enterprises to provide pledged goods, the supplier and the electronic commerce enterprise has direct relations of cooperation, can apply for bank loans by the goods for the pledge, logistics enterprises to bear the task of the transport of goods, can also provide collateral, which can provide financing channels for small and medium-sized e-commerce businesses to help enterprise development.

#### **3.2 Credit guarantee model**

The low commercial credit also cause the rejection from financing applications, unable to apply enough loans, the enterprise cannot undertake more large-scale capital turnover, commercial credit rating is not likely to get faster upgrading, always at a reasonable cycle. Therefore, small and medium-sized e-commerce businesses need to find a joint venture with a high credit guarantee to provide for their security, while third-party logistics enterprises have these conditions. Logistics enterprises with a large number of fixed assets, heavily engaged in logistics services, commercial credit system is relatively perfect, with the cooperation of financial institutions is relatively frequent, more understanding of various types of commodity markets, with the conditions for the provision of credit guarantees.

Credit guarantee mode can be used in a variety of ways.

(1) Credit financing. Logistics enterprises provide credit guarantees to financial institutions according to relevant regulations and requirements of the credit guarantee, financial institutions directly authorized line of credit to logistics enterprises, logistics enterprises pledge loans and settlement according to the borrowing needs of e-commerce businesses and the actual conditions, financial institutions are not directly involved in the specific operation of the loan projects, avoid the loss of business caused by the financial institutions not familiar with the business of lending business and non-professional opinion to the market, conducive to small and medium enterprises to make business decisions more rational, and logistics companies can also provide finance management for e-commerce businesses, to provide warehousing and logistics services for enterprise at the same time. It brought good benefit for the financial institutions, the loan business, and logistics enterprises in this way.

(2) Bundled guarantee. In this way is based logistics company as its core, gather the borrowing enterprises and logistics companies and other enterprises in the supply chain, guarantee capacity of the logistics company bundled with the collateral of the borrowing enterprises to jointly apply for loans from financial institutions. Small and medium-sized e-commerce businesses cannot provide adequate collateral for loans from financial institutions due to the limited scale of operation, limited funds, this can be multiple borrowers enterprise union, or bundled with the members of the supply chain, as a pledge of a supply chain as a whole, as the representative of logistics enterprises to apply for loans from financial institutions, this pledge number is not the key, the credit of supply chain system is the loans focus, so in this way for enhancing the competitiveness of the supply chain plays a significant role.

## 4 Possible Risks

Same to other financing mode, in application of logistics finance, when the logistic company solve the financial problem for the small and medium E-commerce company, it also exist risks, including:

(1) Law risk. The law risky major appearance in different aspect of logistics finance service and the problem of real right. There are at least three sides exist which have benefit connected in logistics finance. Therefore, when people sign a contract, they need to take more complicated in contract. Moreover, people who provide the pledge, who own the right of pledge, whether can use to pledge and the supervise responsibility of pledge in logistics finance that need to introduce specifically in contract. Therefore, the law risk in logistics finance service currently exists.

(2) Operational risk. It means that the pledge is managed by third-party Logistics Company in the logistics and finance area. According to the demands of e-commerce Company to management, the logistics company is not real marketing company. For Loan Company's business, it cannot understand clearly and familiarly. What is the reasonable order and when the things can deliver, both of them should be required by Loan Company. Therefore, it will have risks which are mistakes or delay opportunities during operation.

(3) The credit risk. The credit primary risk represents on the loan company that breaks the contract after logistic company provides logistic finance service for Loan Company. The reason is that the company feels hard to keep contract when they are facing problem because of the low condition entry in the small and medium e-commerce company. However, when the problem comes out, the logistics company will have responsibility that they grantee before, therefore, it causes that they loss themselves property.

(4) Marketing risk. The common marketing risk is the pledge which have the volatile marketing price, causes the actual value loss, the product price in the competition market always fluctuates in a regular way, but it also exists some unexpected situation such as the changing price of a product which may causes the supervision enterprise and the borrowing enterprise about the great losses.

## 5 Conclusion

Financing difficulties of SMEs is a major problem limiting the development of SMEs in China; there are some problems of e-commerce model, the enterprise has more difficulties in financing. Logistics and finance can ease the financing difficulties of enterprises, by the means of stock pledge and credit guarantee, logistics companies can help small and medium-sized e-commerce businesses to obtain financing to solve the actual problem, logistics companies can also get long-term opportunities for cooperation, the same time, logistics financial services to carry out also at risk, logistics enterprises need to prevent as possible in the provision of services.

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