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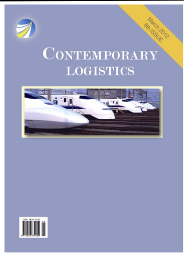

Online Supply Chain Finance: Profound Changes in Financing of SMEs

Yunqi WANG*

International Business Faculty, Beijing Normal University, Zhuhai 519087, Guangdong, P.R. China

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ABSTRACT

Today, competition among enterprises has evolved from that of individuals and competition on their supply chains, which requires a beneficial social service system to provide supply chain management, including the development of supply chain finance services. Supply chain finance is banks' financial business which has been innovated and developed to meet the needs of enterprises' supply chain management. Thus, it has provided a viable solution to alleviate current supply chain financing problem of SMEs. Meanwhile, online supply chain finance does have profound significance to SMEs.

1 Introduction

Financing problem is the bottleneck that has long-time impeded the growth and expansion of China's SMEs. Restricted by their operation scales, most SMEs have small proportion of real estate and their assets are mainly accounts receivable, inventory and equipment. This makes it difficult for SMEs to provide collateral which could meet banks' standards. In addition, collateral assessment and registration departments are scattered and the process is of high charges, it is a fact makes financing difficulty and costly business for SMEs. Supply chain management will provide a viable solution to alleviate current supply chain financing problem of SMEs, and online supply chain finance is the direction.

2 Supply Chain Competition Becomes the Core of Global Business Competition

With the development of economic globalization and integration, modern division of labor has become more and more sophisticated and evolved from the mode of production and supply within one enterprise to specialization among different enterprises. Take core business as the leader, raw material suppliers, manufacturers, and sellers interrelate with each other to form a product supply chain. A supply chain takes a large-scale enterprise as the core, usually brings together hundreds or even thousands of upstream and downstream SMEs. Competition among enterprises today has evolved from that between individuals to competition on their supply chains, which has become a core of global business competition. Through effective integration of logistics, information, and financial flows, Along with supply chain enterprises could enhance the overall competitiveness of supply chain by strengthening cost control and optimizing resource allocation.

*Corresponding author.
Email: yunqiwang@sina.com

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Nowadays, a number of supply chain enterprises, especially the core ones still lack the concept of supply chain coordination. Even though interacting with each others along the supply chain, enterprises still tend to make decisions to maximize their own individual interests. For example, core businesses buy from upstream enterprises on credit, or forward their purchase stocks, or sale to the downstream on prepaid, or even backward their finished goods inventory that resulting in tying funding in upstream and downstream SMEs and severe liquidity shortage. Since SMEs in small scale and their mortgage collateral is not sufficient, it is usually difficult for them to get finance through traditional credit. SME's financing problem directly affects supply chain's operation and its competitiveness, and this inevitably influences the development of core businesses. More and more farsighted core enterprises have been seeking for changes. They have established the concept of supply chain competition and paid close attention to growth of SMEs along the supply chain with the intention to achieve development of supply chain collaboration. Instead of simply trying to reduce their own funding, core enterprises have been intending to improve the stability and efficiency of cash flow along the whole supply chain. Financial crisis has helped to enhance the development of e-commerce within traditional enterprises. Based on e-commerce platform, supply chain could reduce transaction costs, eliminate waste among different parts, and at last improve supply chain collaboration.

3 Supply Chain Finance, the Solution to Supply Chain Competition Escalation

Confronted with the fact of ever deepening financial disintermediation, increasingly stringent regulation, and more complex customer requirements, banks have positively corresponded to the global trend of industrial evolution and furthered their pace of business innovation. While competition among enterprises has upgraded to that on supply chains, mode of services that banks have provided to enterprises has also undergone profound changes. Different from the past when banks provided services only to individual business, previous "point to point" services have now turned into "points to chain" ones, which could investigate and support the development of real economy from the perspective of whole supply chain. Starting from traditional trade finance, banks' first provide single businesses with single financing products such as real estate mortgage or factoring. Then they develop different products gradually to improve their overall service capacity and ultimately provide the entire supply chain with one-stop and comprehensive financial services program. The so-called supply chain finance is sort of systemic financial solution where banks link the core businesses, upstream and downstream businesses along supply chain together so as to reduce the overall financial costs. Its most prominent feature is to put SMEs into supply chain when their financing problems are considered. Core businesses' good credit will be extended to upstream and downstream SMEs along the supply chain so as to make the latter accessible to banks' financial support. Through supply chain finance, logistics, information and capital flow could be allocated rationally along the supply chain so as to achieve win-win situation between core enterprises and SMEs.

The core issue of SMEs' financing problem lies in their lack of collateral security, asymmetry credit information, and weak anti-risk ability. Supply chain finance is sort of systemic financing arrangements that banks take supply chain as a whole so as to get rid of the limitations of a single enterprise and provide service to all through furthering their cooperation with core businesses. Even though a single SME can not meet banks' certain risk control standards in terms of scale, value of fixed assets, financial indicators, and modes of guarantee, banks would also provide financing package as long as this SME has stable business contact with core enterprises. By dynamically tracing SME's production, operation, purchase and sale transactions, and taking its such assets as accounts receivable and inventories along its transaction process into consideration, banks would lower their financial analysis standard and loans access control. Banks' concern then would focus on the authenticity of each business transaction and core business' strength and credit level, so that they could provide credit through binding credit of SMEs with that of core business. As supply chain financial business is actually carried out on full understanding of logistics, capital and information flow along the supply chain, the evaluated credit level of SMEs will be far better than what would be obtained under traditional method. This makes it easier for SMEs to get credit from banks. By providing "group purchase" type of credit and initiating innovation on risk control measures, banks turn the uncontrollable risk from individual enterprise to controllable risk along the whole supply chain and thus effectively reduce their credit risk.

Supply chain financial products can be divided into three categories: prepaid, inventory, and receivables. Enterprises along the supply chain could choose their own suitable products. Thus, financing does not involve transfer of pledge and then contribute to the exertion of its use value, reduce such expenses as assessment and guarantee, lower SMEs' financing cost, and speed up the docking between logistics and cash flow.

Supply chain finance could effectively meet the needs of SMEs to ease their financing bottleneck. This is especially true for those traditionally disadvantaged businesses along the industrial chain, because their small business scale and low credit ratings make it difficult for them to obtain banks' credit. In view of the current conditions of tight monetary policy, this kind of financing tends to be particularly important.

4 Online Supply Chain Finance Does Have Profound Significance to SMEs

Supply chain finance has developed rapidly here in China, and it has become an important means for banks and enterprises to further develop and enhance competitiveness. Trading modes have been evolving. With gradual maturity of network solutions, network has been needed to streamline business processes, reduce processing time, and lower operating costs. Based on banks' internet service platform and with the implementation of a series of electronic financial derivatives, online supply chain finance is not only a new paperless and standardized financing and service model that closely links core business and its upstream and downstream enterprises along the supply chain, but also dominants the direction of supply chain finance development. Online supply chain finance does have profound significance to SMEs.

By establishing online supply chain financial data platform that meets seamlessly the needs of core business, distributors, suppliers, logistics companies and other customers along the supply chain and has a unified visual interface and with the help of digital signature authentication technology, banks could realize real-time transmission and sharing of data of logistics, information and capital flow of transactions between enterprises along the supply chain. Banks will provide upstream and downstream enterprises and core business with online financing, settlement, financial management and other financial services so as to establish the comprehensive, whole process, and multi-level online financial service system. This system has two significant features.

4.1 The system is fast and convenient

Most information, such as business transaction, collateral, and logistics along the supply chain could be shared on the platform and tend to be transparent, open and accurate. This saves banks' information screening costs. Customers could provide their electronic information directly online and so does the approval process. It is no longer necessary for customers to submit paper application for official seals. Access to banks' funds could be available in minutes and release and recovery of goods under pledge tends to be much faster. Online supply chain finance effectively speed up the reaction of banks and enterprises along the supply chain, improve their available liquidity, and then enhance the quality of financial management.

4.2 The system will provide comprehensive services

After obtaining banks' credit and signing online financial service agreements to open relative online financial services, enterprises along the supply chain will receive banks' such whole chain services from upstream and downstream enterprises to terminal consumptions as order financing by upstream suppliers, advance financing by downstream distributors, inventory stock financing, and terminal consumption loans.

5 Online Supply Chain Finance Brings Banks and Supply Chain Win-win Situation

Online supply chain finance is the combination of supply chain innovation and financial innovation, which could effectively realize win-win situation and mutual benefits between supply chain and banks.

5.1 Online supply chain finance helps to improve supply chain's overall competitiveness

By establishing efficient information exchange platform, online supply chain finance could promote timely exchange on internet of such information as contract orders, delivery and receipt, and accounts payable and receivable, so banks could also promptly get involved in different financial needs along the supply chain and provide relative financial services, especially those to meet the needs of relatively weak upstream and downstream SMEs, so as to resolve the imbalance problem along the supply chain to promote its development and acquire development opportunities for SMEs.

Taking core enterprises as the center and utilizing e-commerce and online supply chain financial platform to link suppliers, manufacturers, distributors, retailers, and terminal customers together, supply chain financial services helps to establish long-term stable strategic cooperative relations between upstream and downstream enterprises and core business so as to realize joint development and risk sharing.

5.2 Online supply chain finance also helps to enhance banks' core competitiveness

With huge market potential and good risk control effect, supply chain finance brings banks with great business opportunities to expand their intermediate business and other new operations. By making it possible for banks to adjust credit structure constantly and realizing economies of scale through bulk access to credit simultaneously, online supply chain finance enhances banks' core competitiveness by providing differentiated business and high quality service, and thus becomes the main development direction.

Online supply chain finance provides banks with stable new channels of high-end customers, and banks' business expansion along online supply chain greatly improves the relevance and efficiency of their marketing. By providing supply chain-oriented credit package to enterprises, banks have "locked" core business to them at the same time. This multiplier effect of core enterprises is enormous. Based on the accurate master of enterprises' such information as trade settlement records, contract compliance and so on, banks could adjust their financial service program flexibly according to enterprises' operations and thus improve their risk control ability.

6 Conclusion

It is through network integration of such supply chain financial resources as information, capital, and logistics that online supply chain finance could achieve goals of improving financial situation, enhancing capital use efficiency, and promoting competitiveness of the supply chain. Thus the development of online supply chain finance requires participation and cooperation from banks and all the enterprises along the supply chain. Also needed is a favorable financial environment, including credit system, financial supervision, e-commerce, financial electronic system and so on.

Collaborative e-commerce supply chain management puts forward new requirements on online supply chain financial services. In fact online supply chain finance is not merely a business online banking. It requires a comprehensive online solution where, in view of the fact of implementing e-commerce all along the entire supply chain, a multi-channel interface should be built to include financing, payment and settlement, and information services. Banks should continue to enhance the development of their electronic platform and gradually give more importance to the providing of financial services to SMEs. Taking the above as development strategy, banks should initiate innovation in many aspects such as institutional arrangements, organizational structure, internal control, and business process according to characteristics of online financial services.

Departments in the banks which formerly deal with supply chain business were originally established separately according to their functions and thus are of low efficiency in terms of service and coordination to customers. In fact resource integration should be taken up systematically within the head office not only to strengthen horizontal processes coordination and provide an integrated online supply chain financial solution with good convergence, but also to realize information sharing and whole process management control, and at last to improve the service and technical levels provided to SMEs. Banks should also actively explore the opportunities to cooperate with such providers as supply chain information, insurance, security, and other service, so as to further strengthen and enrich the functions of supply chain financial support platform.

While further accelerating their business development, SMEs should also pay more attention to the changes in national financial environment and policy orientations, strengthen their own management, improve docking with core businesses and financial institutions, continue to accumulate good credit and improve credit rating, and finally establish a good corporate image.

Author in Brief:

Wang Yunqi, Associate Professor, Ph.D., International Business Faculty, Beijing Normal University at Zhuhai, 519087

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