2019 International Conference on Social Science, Management and Education (ICSSME 2019)

The Application of Supply Chain Finance in Financial Supply Chain Management

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Keywords: Supply Chain Finance; Financial Supply Chain Management; Financial innovation

Abstract: Supply chain finance is an integrated scheme for financial institutions to provide financial services. It is proposed to meet the needs of financial supply chain management. Supply chain finance is an integrated service scheme to solve the financial supply chain management problem. Supply chain finance can help enterprises to withdraw funds in advance and reduce the occurrence of bad debts. This kind of enterprise funds reasonable arrangement can increase enterprise income. This paper first analyses the concepts of supply chain management, financial supply chain management and supply chain finance, then analyses the supply chain financial services schemes, and finally puts forward some application ideas of supply chain financial innovation.

1. Introduction

At this stage, the main channel of enterprise financing is bank loans. Restricted by the economic system, SMEs (small and medium-sized enterprises) have limited access to loans. Supply chain finance gives SMEs new financing tools. At the same time, it satisfies the demand of industrial transformation and upgrading of core enterprises. This ecosystem is the commercial value and development direction of supply chain finance in the future. Under the circumstance of supply chain finance, supply chain finance can help enterprises accelerate capital recovery and reduce bad debts. At the same time, it will make the process of capital utilization more rational and standardized. However, in the process of applying supply chain finance, enterprises should pay attention to many problems, such as controlling the financing scale reasonably, strengthening the management and recovery of accounts receivable, promoting the virtuous circle of funds within enterprises, improving supply chain control and increasing the financing capacity of supply chain.

2. Relevant concepts

2.1 The Concept of Supply Chain Management

Supply chain is a network of many manufacturers and service providers working together. Its function is to transform raw materials into commodities, and finally they will pass to the consumers. The whole process forms a whole functional network chain structure model, including suppliers, manufacturers, distributors, retailers, logistics, information flow and capital flow, etc. Supply chain management is an active management activity to maximize customer value and obtain sustainable competitive advantage.

2.2 The Concept of Financial supply chain management

Financial supply chain management is a management method to minimize the financial cost of the whole supply chain. Through the overall arrangement of fund raising and liquidity between different enterprises upstream and downstream, it can rationally disperse the cost of funds. For example, on the premise of guaranteeing the buyer's deferred payment period, core enterprises can help suppliers obtain payment to solve their financial pressure as soon as possible through the corresponding financing services provided by the third-party financial institutions.

2.3 The Concept of Supply Chain Finance

The concept of supply chain finance is as follows. Based on the whole supply chain, banks will identify the units with higher credit rating as core enterprises. By providing financing services to core enterprises, upstream enterprises and downstream enterprises, banks can extend to a full range of financial services. Supply chain finance originated in the 1980s. Based on the demand of financial supply chain management, financial institutions have developed a series of financing products and services on the basis of traditional trade financing products, which meet the needs of financial supply chain management. Based on these unit products, financial institutions eventually innovate a set of integrated solutions to financial supply chain management problems. The integrated scheme is supply chain finance. The 50 largest banks in the world have all provided supply chain financial services to enterprises. In China, this business has become the main direction for CITIC Bank, Minsheng Bank and Development Bank to develop business market. At the same time, state-owned commercial banks have also increased the expansion of supply chain financial business. Supply chain financing has become a key business area of great concern.

3. The innovative application scheme of supply chain financial services

At present, supply chain competition is replacing competition among individual enterprises. The demand of real economy and finance has also changed from individual enterprises to the whole supply chain. Supply chain finance is a set of integrated solutions to financial supply chain management problems formed by banks according to the needs of supply chain financial management. Therefore, in a series of production and operation links, including purchasing, transportation, storage, processing and manufacturing, distribution, sales and receivables, enterprises can formulate a supply chain financial service plan for the prepayment, payable, inventory, receivables and so on. The innovative application scheme of supply chain financial services developed in this paper is shown in Figure 1.

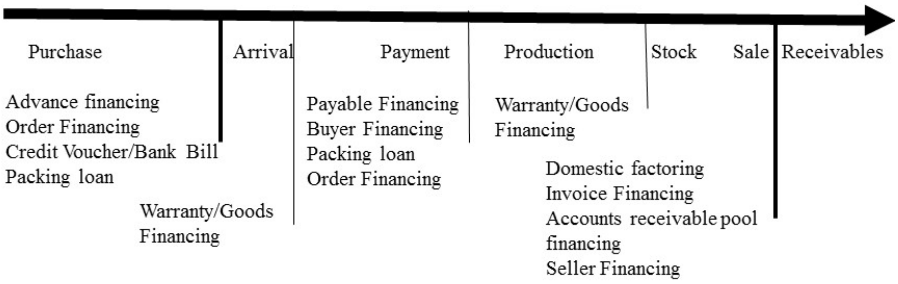

Figure 1: The supply chain financial services schemes of supply chain financial services

4. The Innovation Application of Supply Chain Finance

4.1 Procurement phase: advance account financing model of commitment repurchase

Advance financing is the financing of future inventory. Transactions between buyers and sellers are based on real trade contracts. This financing model helps enterprises achieve leveraged procurement and bulk sales. Through the accumulation of margin to gain trust, enterprises can achieve income, while reducing the credit risk of financial institutions. Under this mode, the right of pick up the goods from downstream shipping and marketing enterprises to upstream suppliers is the guarantee basis of prepayment financing. In practice, in order to obtain preferential prices under an environment of tight product supply, downstream transportation and marketing enterprises will first pay a certain proportion of advance payment to banks or financial institutions to obtain credit. Upstream suppliers send goods or bills of lading downstream after receiving the full amount. If the downstream shipping and marketing enterprises fail to repay on time, the upstream enterprises will repurchase the surplus goods, and the repurchase money will give priority to repaying the bank loans.

4.2 Business phase: the inventory financing model of pledge guarantee

Enterprises often produce a large number of inventories in their daily operations. Inventories will increase the cost of warehousing and occupy the capital of enterprises. Inventory will reduce the liquidity of enterprise funds and weaken the effect of financial management. Traditional bank loans are mainly real estate mortgage and credit guarantee, while inventory financing business is different. Inventory financing mode mainly serves enterprises with insufficient liquidity. In the actual operation, the middle and lower reaches of the shipping and marketing enterprises apply for loans from banks with their inventories. Banks and other financial institutions entrust third-party logistics companies to evaluate their pledges. After passing the evaluation, banks sign agreements with financing enterprises, core enterprises and third party logistics respectively, and finally banks issue funds. Transportation and marketing enterprises use their sales revenue as a source of repayment. If they fail to repay on time, the remaining goods will be repurchased by the core enterprises, and the repurchase money will be used for repayment.

4.3 Sales phase: accounts receivable financing model with commitment to payment at maturity

At the sales stage, the sales are very large, so there are often phenomena of selling on credit and purchasing on credit. Based on this, a large number of accounts receivable are generated, especially for the upstream supply enterprises. Therefore, upstream supply enterprises are more likely to have poor capital turnover, which will restrict the development of enterprises. The accounts receivable financing mode is as follows. The seller transfers or pledges the outstanding accounts receivable to the bank for financing. This model helps financing enterprises to obtain financing by utilizing the credit of core enterprises. From the perspective of financial management, the accounts receivable financing mode reduces bad debts, activates enterprise assets and reduces credit risk of financial institutions. Therefore, the financing mode of accounts receivable is a win-win financing mode. The main process is that upstream supply enterprises with financing needs transfer receivables to banks and other financial institutions, and then obtain loans. In this model, core enterprises need to guarantee their own credit and promise to pay at maturity. When the loan matures, the core enterprise calls the bank in full.

5. Conclusions

Under the background of supply chain finance, enterprises should find their own advantages and formulate scientific development strategies. By closely integrating into the supply chain, enterprises can create more development opportunities and achieve more efficiency. At the same time, SMEs should constantly improve their financial management and personnel management according to market reality and their own conditions. With the help of information, capital and market resources of core enterprises, SMEs can build a good upstream and downstream resource relationship and integrity system, which will promote the sustainable and healthy development of supply chain. Through building a multi-win profit model, we can realize the transformation, upgrading and development of enterprises.

Acknowledgement

Research project of legal supervision of Internet logistics finance by hunan education department, subject no. : 16C1116

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