

Analysis of Supply Chain Financial Platform Leading by Core Enterprise——Take EPEC as an Example

Zheng Gong^{1,2,3,a}, Xiaoting Pan^{1,2,3,b}, Junsheng Wang^{1,2,3,c}, Zhongju Xie^{1,d}

¹State Grid Electronic Commerce CO.LTD., Beijing 100053, China;

²State Grid Xiong'an Financial Technology Group, Xiong'an 071800, China;

³Power Finance and Electronic Commerce State Grid Corporation Laboratory, Beijing 100053, China

^agongzheng@sgec.sgcc.com.cn, ^b1208930502@qq.com, ^cwangjunsheng@sgec.sgcc.com.cn, ^dxiezhongju@sgec.sgcc.com.cn

Keywords: Core enterprise, Supply chain finance, EPEC

Abstract: The operation mode of the supply chain financial platform leading by core enterprise is referential. This paper summarizes the experience worth of learning by analyzing EPEC's main business, operation status, existing problems and other aspects in detail. It provides enlightenment for the development of supply chain financial platform under the similar model in China.

1. Introduction

In recent years, supply chain and supply chain finance have received more and more attention after proposing a number of national strategic policies, such as the integration of industry and finance, the transformation and upgrading of physical enterprises, and the financial services real economy. There are many small and medium-sized enterprises (SMEs) whose development bottlenecks are financial difficulties in the supply chain. Exactly, supply chain finance can rescue SMEs from financing problems. From a static perspective, supply chain finance refers to the various complicated financial relationships of many participants in the supply chain; and from a dynamic point of view, supply chain finance refers to financial institutions or other supply chain managers provide customized fund management, financing and other services for enterprises with capital needs.

At present, there are four types operation modes for supply chain finance, which are the operating modes dominated by core-enterprises, e-commerce platforms, logistics companies and integrated supply chain management platforms. In the supply chain finance business, whether SMEs can successfully finance mainly depends on whether the core enterprises provide credit support. Therefore, whether the core enterprises help SMEs and how the core enterprises operate the supply chain finance business is crucial to the financing of the entire chain.

This paper will focus on the core business-led supply chain financial operation model. It selects a representative platform which has a longer history than others to analyze the development of its supply chain financial business in detail, and provide reference for other companies.

2. Organization of the Text

2.1 Overview of supply chain finance led by core enterprises

The supply chain financial model led by the core enterprises of the industrial chain is usually based on the strong strength of the core enterprise itself and the in-depth understanding and rich experience of the industry. Firstly, the core enterprise fully understands the information and markets of the entire supply chain. Secondly, it fully grasps the advantages and competitiveness of upstream and downstream related enterprises. Finally, it coordinates with relevant financial institutions such as banks to obtain financial support. By grasping the entire supply chain, the core enterprises integrate the business flow, logistics, capital flow and credit flow of the entire supply chain, and provide various financing products to meet the financing needs of upstream and downstream demanders based on real trade background.

At present, the core enterprise supply chain finance business, which is dominated by large state-owned enterprises, is in full swing. According to the business model, there are four main categories: electronic commercial bills, commercial factoring, online supply chain finance, and financial company supply chain financial interconnection model. The core enterprises carry out supply chain finance business, on the one hand, which solves the financing difficulties of SMEs, helps enterprises to reduce procurement costs, promote product sales, and improve the market competitiveness of core enterprises; on the other hand, bigger and stronger non-bank financial business can enrich the company's own business lines and create a new economic growth point for the company.

2.2 Overview of Sinopec's EPEC — Supply Chain Financial Platform

Sinopec, a large-scale State-owned enterprise with numerous business lines and strong financial strength in China, is the largest supplier of refined oil and petrochemical products in China. As a core enterprise group in the petrochemical industry, Sinopec has a large number of business contacts with upstream and downstream SMEs, and frequent capital flows. In order to give full play to the Group's radiant driving role, facilitate the daily business development, and help related SMEs solve financial difficulties, Sinopec established the EPEC in April 2015. The platform integrates multiple chains of industry chain, supply chain and service chain. After launch, it adheres to the core concept of "making procurement more professional". In response to the new model of SC2B e-commerce, it has launched supply chain financial services based on the various related parties in each chain. In particular, it provides financing services for relevant SMEs to solve their financial difficulties. At the same time, the platform deeply probes the core value of the supply chain, and explores the business operation model through practice.^①

The EPEC platform has developed rapidly in the past three years. No matter the variety of products on the line, the number of orders and the scale of transactions have grown fast. According to the data, in 2017, the amount of transactions was 131.8 billion yuan, which increased by 226% than the same period last year. Among them, the online payment capital flow is 39.3 billion yuan. In the first quarter of this year, the average daily trading volume of the platform was 1.2 billion yuan, a year-on-year increase of 126%, and the online payment capital flow was 24.8 billion yuan. It is expected to exceed the 100 billion yuan mark by the end of the year. By the end of 2017, there were 128,000 registered users on the platform, up 19.6% year-on-year, and external users accounted for 75%^②. At the same time, the supply chain financial financing credit exceeded 2.6 billion yuan.

^① <https://mall.epec.com/ecmall/staticHtmls/aboutUs.do>

^② Data Sources: http://www.cb.com.cn/companies/2018_0421/1232176.html

As one of the important businesses of the EPEC platform, the supply chain finance business aims to support the development of related enterprises, solve the problem of corporate capital turnover, reduce the financing cost of enterprises, and improve the financing efficiency of enterprises. At present, the business relies on Sinopec's strong credit and payment capabilities, relying on the material procurement management system and information system to provide suppliers with management data, transaction data, accounts payable data and other information to help suppliers apply for financing from banks. By February 2018, the EPEC platform was improved on the basis of the previous, and the 2.0 system was introduced, which is more convenient for business development.

3. The main products and business model of EPEC

As a professional industrial e-commerce platform, EPEC mainly provides services such as industrial product procurement and online trading e.t. At the same time, in order to meet the needs of upstream and downstream enterprises, the financial services channel for supply chain has been launched. The supply chain financial products are mainly for commercial factoring and order financing. The demanders can apply directly online and obtain financing quickly after review.

3.1 The main products

3.1.1 Commercial factoring

(1) Commercial factoring

It means that the supplier enters into a sales contract with the purchaser, and then transfers the accounts receivable generated by the contract to the commercial factoring company, and the commercial factoring company provides the accounts receivable financing for the supplier.

(2) Commercial factoring for EPEC

When a Sinopec enterprise has a procurement business, the supplier delivers to it and passes the inspection. After that, the supplier who needs financing will apply to EPEC Commercial Factoring Co. Ltd., and the company will provide recourse financing services, which ratio is generally 70%-80% of accounts receivable.

(3) The advantages of commercial factoring

- ◆ Receivables are realized in advance to ease liquidity pressure;
- ◆ Improve corporate financial statements and optimize corporate asset structure;
- ◆ Increase capital turnover and expand sales;
- ◆ Promote economies of scale and reduce production costs.

(4) The advantages of services

- ◆ The loan can be arrived on the same day;
- ◆ Attractive financing rates;
- ◆ Does not occupy credit lines of financial institutions;
- ◆ Flexible financing period;
- ◆ Full process online operation.

(5) Business process

The commercial factoring business mainly involves suppliers and EPEC Factoring Company. The supplier proposes the application for factoring business. After the approval, the company will issue the financing. The specific process is as follows:

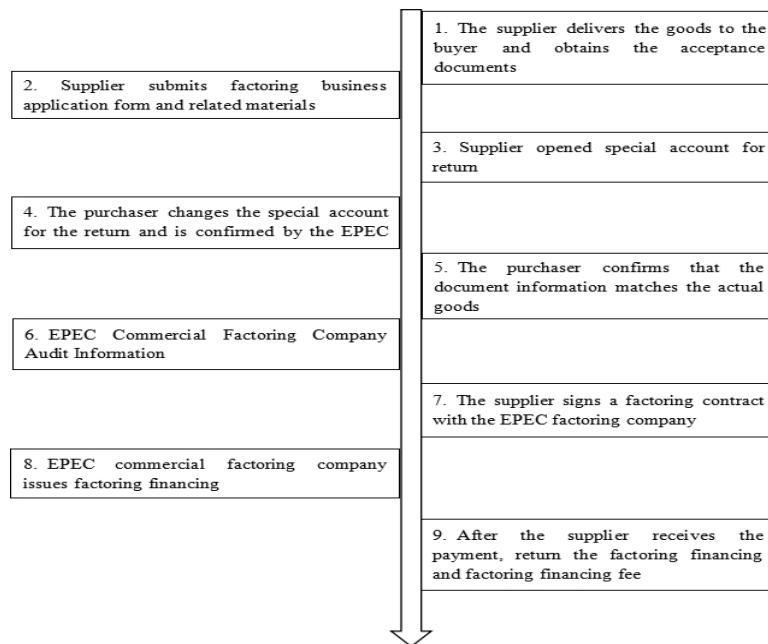


Figure 1 Factoring business operation flow chart

3.1.2 Order financing business

(1) Business introduction

The EPEC platform cooperates with banks by submitting supplier's data to provide convenient financing services to suppliers. When the supplier applies for financing from the bank, the bank can truthfully understand the transaction between the supplier and Sinopec, reduce the submission of credit application materials, guarantee and mortgage, thereby improving the bank's audit efficiency and credit limit.

(2) Application conditions

Financing applicants can register for financing on the EPEC platform, then apply for financing.

(3) Application process

When applying, the supplier needs to apply online first. The information collected by the platform will be submitted to the cooperative bank. After the bank has passed the audit, the credit line can be obtained. The details are as shown below:

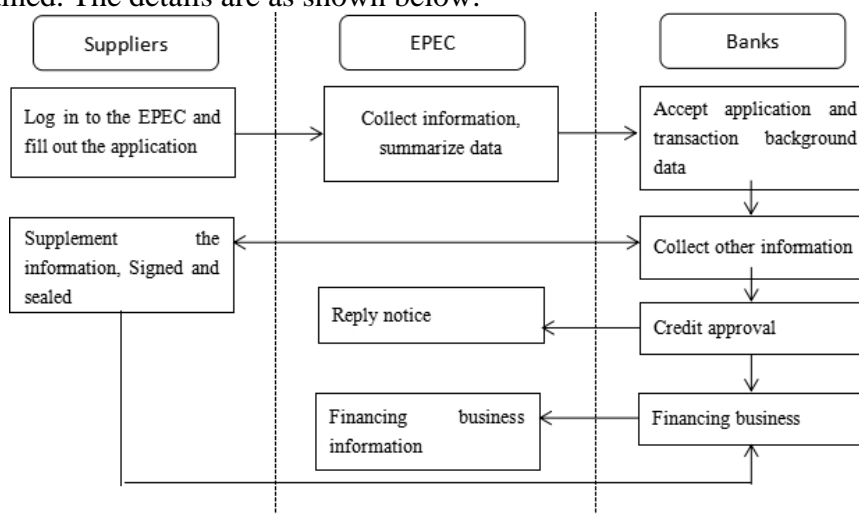


Figure 2 Supply chain financing business process

(4) Cooperative bank

Hua Xia Bank, Bank of Communications, China Guangfa Bank, China Minsheng Bank, Industrial and Commercial Bank of China, Bank of China

3.2 Business operation model

In modern enterprise management, the internal operation modes are mostly similar, mainly including five levels: administration, sales, production, technology and fund management. Funds are the lubricants for the healthy operation of the company. The fund management is mainly responsible for the daily financial work, fund use supervision, financing, and investment attraction of the enterprise to ensure the safety of the capital flow of the enterprise. This paper mainly studies the development status of enterprise's supply chain financial platform, so it will focus on the management mode of EPEC Capital Management.

The company's supply chain finance business is mainly for suppliers, providing commercial factoring and order financing for suppliers. The commercial factoring business is based on the product contract signed by both the supplier and the buyer, and the financing involves both the supplier and the EPEC Factoring Company. After the supplier submits the application, EPEC Factoring Co.Ltd. will conduct the audit and issue the financing money after the approval. If the purchaser fails to pay, the factoring company has the right of recourse. In the order financing business, the EPEC platform plays a role similar to the intermediary. The supplier first logs in to the platform to submit the application, the platform is summarized and submitted to the bank, and the bank approves the loan after the approval.

EPEC operations have four major characteristics:

(1) Quality is guaranteed through expert procurement. Sinopec has strong technical teams and holds advanced technology in many fields. It can provide technical support, quality inspection, performance evaluation and other technical support for the purchase of EPEC. At the same time, they also have a professional purchasing team, covering many countries and regions in the world.

(2) The bidding team is professional and the procedures are legally compliant. Sinopec has the qualification of bidding for authoritative certification. It has a bidding center in 6 cities including Beijing, and has a professional evaluation team. The evaluation covers 56 categories of materials such as bulk raw materials, durable and fast-moving products, and alloy materials. Each product in EPEC is determined by expert bidding and uses its strong bargaining power to determine the price of the commodity.

(3) Provide due diligence butler service. EPEC management resources, demand, quality, on-line merchandise, etc.. It understands customer needs to find supply, and provides users with technical assistance, after-sales service and other services.

(4) Innovative and win-win sharing model. EPEC opens up supplier resources to provide best products and services to society. At the same time, it cooperates with financial institutions such as banks to provide convenient and low-cost supply chain financial services for upstream and downstream enterprises with financing needs. Sinopec is committed to building a modern logistics management and distribution model, breaking the bottleneck of logistics transportation in the last mile and establishing a supply chain logistics system.

4. Future development proposals and implications for other companies

4.1 Take full advantage of big data

Big data is the key to the competitiveness of future enterprises. It is the cornerstone of innovation and development of supply chain finance. The core enterprises of supply chain finance have natural

advantages in data collection and application. The core enterprise has a large amount of customer data, so it should actively build a big data analysis platform, which can make full use of the advantages of big data, classify and aggregate customer information timely and accurately. When conducting corporate credit financing, according to the results of big data analysis, the core enterprise can accurately determine the credit line and formulate a financing plan that is in line with the company's situation.

4.2 Building a platform for integration of industry and finance

The future development of Chinese supply chain finance is bound to be platform-based integration. Eventually, a single supply chain will gradually form an ecosystem platform combining industry and finance to achieve multi-win. Therefore, the supply chain financial system led by the core enterprises should take the lead in the combination of industry and finance with the strong financial strength of the core enterprises and the broad and high-quality resources, and be the leader of the integration of industry and finance.

5. Conclusion

The financial platform leading by core enterprise will be the mainstream in the future. Finance and technology will become two important wings of supply chain finance development. Therefore, we must follow the world trend and make full use of modern technology to make supply chain finance better serve the society.

References

- [1] Hu Yuefei. *Supply Chain Finance: Background, Innovation and Concept Definition*[J]. *Journal of Financial Research*, 2009(08).
- [2] Zhang Rui. *Research on the Operation Mechanism of Supply Chain Financing of Core Enterprises*[D]. *Wuhan University of Technology*, 2013.06.
- [3] Lei Jun. *Analysis of Supply Chain Financial Operation Mode and Financing Model*[J]. *Finance Economy*, 2017.12.
- [4] Chen Qinong. *Thoughts on the Financial Model of Supply Chain in Large State-owned Enterprises*[J]. *Shang Hai Finance*, 2018(2).