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# Business Model of Supply Chain Finance

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**Abstract:** Supply chain finance is a new type of financial product designed by commercial banks to provide financial aid for the weak medium and small-sized enterprises in the supply chain. It can effectively eliminate the obstacles of information asymmetry between banks and enterprises, but also effectively solve the problem faced by the medium and small-sized enterprises in getting bank credit loan due to insufficient mortgage, as well help them to improve the core competitiveness of commercial banks, eventually bring new profit growth for commercial banks and the third-party logistics enterprises. This paper, introduces some different financial models of supply chain finance, for medium and small-sized enterprises which can be considered, adopted or used according to their own situation.

**Keywords:** Supply chain finance; Main business model; Medium and small-sized enterprises

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## 1. Introduction

Supply chain finance may help to activate the current assets of medium and small-sized enterprises, by improving their credit level, and designing and personalizing different financing models according to the company needs. The supply chain finance business in China, which are adapted to the development status of China's medium and small-sized enterprises can be divided into four modes, which are the accounts receivable financing mode, confirmed warehouse financing mode, warehouse financing mode, and the whole supply chain finance mode.

## 2. Accounts receivable financing mode

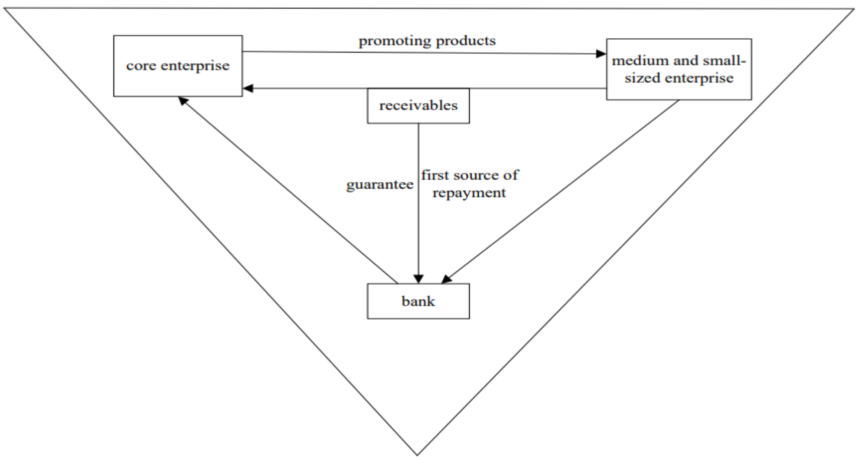


**Figure 1.** Accounts receivable financing mode

As shown in **Figure 1**, the business in the upstream medium and small-sized enterprises of the core enterprises in the supply chain, use the unexpired accounts receivable generated from the sales of products to the downstream core enterprises as collateral for financing to obtain the required funds or loans [1-3]. The upstream is medium and small-sized enterprises as the creditor, while the downstream is a core enterprise as the debtor, and when the bank sign a tripartite agreement on financing, the account receivable as a guarantee is the first source of repayment, and the core enterprise provides a counter guarantee for financing. If the financing company defaults, the core company will take the responsibility of repaying the bank loan [4,5]. Under this financing model, medium and small-sized enterprises in the supply chain will not easily choose to default, but will try to repay the bank loans on schedule to maintain a long-term trade cooperative relation with the core large enterprises, subsequently enhance their own credit growth to reduce the risk of not paying or delaying the bank's loan payment. Generally, banks will conduct risk assessments on financing enterprises before providing loans or credits to the medium and small-sized enterprises, by focusing on the creditworthiness of financing medium and small-sized enterprises, but also on the authenticity of the transactions and the operation of the entire supply chain. Since accounts receivable are the current assets for most of the medium and small-sized enterprises in normal operations, therefore the accounts receivable financing model is the more suitable for most of the enterprises [6].

The accounts receivable financing model, enables the medium and small-sized enterprises to obtain the required funds in a timely and fast manner with the help of the core enterprise as the transaction object and the authenticity of the transaction, without the needs to mortgage their real estate as required under the traditional credit model. This model can meet the short-term and high-frequency capital needs for the medium and small-sized enterprises, which is conducive to the stable development of the company, together with the supply chain.

## 3. Confirmed warehouse financing mode

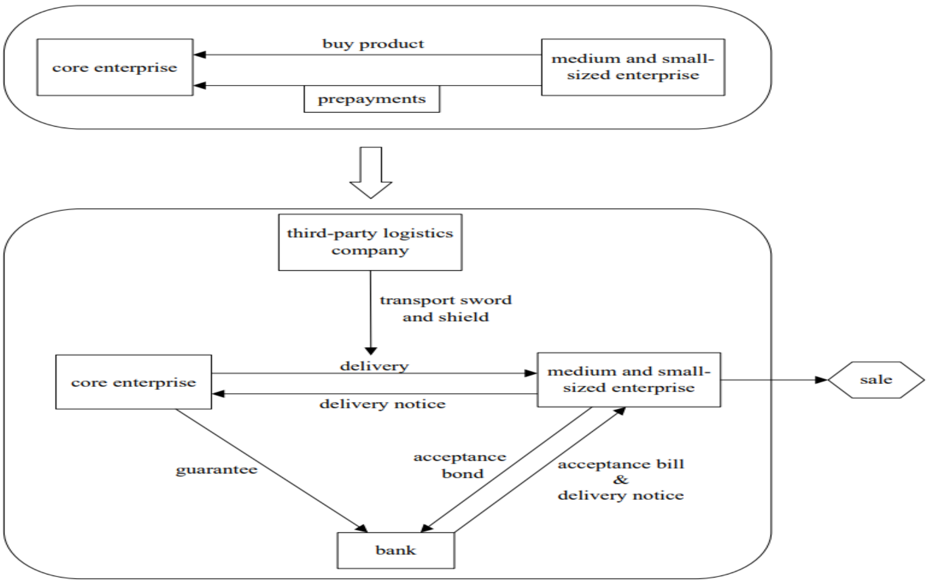


**Figure 2.** Confirmed warehouse financing mode

As shown in **Figure 2**, the downstream medium and small-sized enterprises of the core enterprises in the supply chain, use the prepaid accounts generated from the purchasing products from the upstream core enterprises as the basis, which accept bank bills as the carrier, meanwhile the upstream core enterprises promise to repurchase the funds, to obtain the required funds. Core enterprises are in a strong position in the supply chain, while downstream medium and small-sized enterprises often need to prepay the core enterprises when purchasing raw materials or products from the upstream core enterprises. The confirming warehouse financing model, can be used to finance a special prepaid account for medium and small-sized enterprises with insufficient short-term liquidity. To expand the sales and to stabilize the downstream distributors, the core enterprises are usually willing to use their own credit to provide guarantees and buybacks for the downstream medium and small-sized enterprises [7-9, 11, 12]. The bank deposit following acceptance and the sales receipts from medium and small-sized enterprises, as well as the commitment by core enterprises to repurchase, further reduce the risk in loan payment. In addition, the confirmed warehouse financing model, also requires the participation of third-party logistics companies to ensure the evaluation and supervision of the pledged items.

The confirmed warehouse financing model achieves a win–win goal, where they not only provide financial support for the medium and small-sized enterprises, but also realizes the leveraged procurement of these enterprises, increase the bulk sales of the upstream core enterprises, and also helps to creates new profit growth points for banks. Medium and small-sized enterprises can obtain the payment for goods in batches, as well deliver the goods in batches through the confirmed warehouse financing model, further help in the cost savings upon purchasing in large-scale, and also effectively alleviate the financial pressure caused by large-scale purchases and one-time full payment for goods. This model is suitable for enterprises that purchases the products in large quantities, such as household appliances, automobiles, steel and many more.

## 4. Financing warehouse financing mode

As shown in **Figure 3**, the financing warehouse financing model, also known as the movable property pledge financing model. The medium and small-sized enterprises, banks, and third-party storage units which meet the bank's requirements will sign a tripartite agreement to obtain the capital needs, in return the medium and small-sized enterprises use the bank-approved movable properties as collateral, and the bank entrusts the warehousing unit to effectively supervise the pledged object after obtaining financing [10, 13-15]. The third-party logistics enterprise is entrusted by the bank, to supervise the pledged goods, to realize the transfer control of the pledged goods by the bank without transferring ownership. Financing collaterals should be movable assets such as inventories, letters of credit, warehouse receipts, letters of guarantee, and commodity certificates that can be accepted by the bank, and with the characteristics of clear property rights, stable physical, chemical properties, stable prices, active market, easy realization, clear specifications, easy measurement, and calculation, allowing the enterprises to flexibly choose the way that suits them. Enterprises can obtain the required funds without affecting their normal business turnover.

There are two specific ways, to develop the financing warehouse mode. The first way is for the third-party logistics company, to be recognized and allowed by the bank to set up a public warehouse, while the medium and small-sized enterprises carry out warehousing business in this warehouse. The receipt issued by the bank to the real warehouse, will provide a convenient financing for the medium and small-sized enterprises, which requires the third-party logistics companies to provide guarantees for the authenticity of warehouse receipts. In the second way, the bank directly provides the third-party logistics enterprise with a certain credit line authority according to its comprehensive indicators, such as asset scale and operation capacity, further the third-party logistics enterprise transfers the credit to the main customers. The third-party logistics, maintained a long-term and stable cooperative relationship with the customers according to the credit status, and also monitoring the customer logistics and providing a conditional or unconditional guarantee to the bank for the commodities stored in the warehouse of the cooperative enterprise. Alternatively, after the third-party logistics enterprise obtains the credit line from the bank, they can directly purchase the items on the behalf of the customer, further stores the products in their own warehouse, and charges certain supervision fees. Finally, the customer can choose to pay the third-party logistics enterprise to transport the goods in batches.

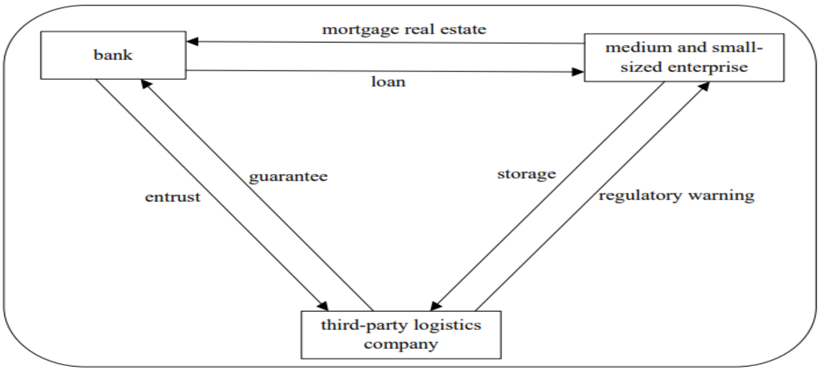


**Figure 3.** Financing warehouse financing mode

## 5. Whole supply chain finance mode

This model is an extension of the financing warehouse model. In this model, the goods are pledged by the enterprise to obtain financing to store in multiple warehousing nodes or in multiple transportation processes. The enterprise conducts the whole-process together with closed supervision of the pledged goods, and ensures that the overall value of the pledged goods is higher than the minimum value of the bank's credit. On this basis, the bank provides financing to the enterprise [16-17]. In this mode, the goods pledged by the enterprise are not limited to the goods that are stored in third-party storage units, but also can be in a flow state, with a closed supervision of the third-party logistics companies from the upstream suppliers of the enterprise to the downstream dealers of the enterprise [18-20]. When the financing enterprise needs to process the pledged goods, the third-party logistics enterprise will deliver the goods to the financing enterprise, and at the same time exchange the goods of the same value or the processed goods. The logistics outsourcing trend of large enterprises has created a market space for the whole supply chain financial model.

**Table 1.** Comparison of supply chain finance modes

| Models | Pledge | Control power of the pledge | Use of financing | Third-party participation | Financing risk bearers | Position of financing enterprise in supply chain |
|---|---|---|---|---|---|---|
| accounts receivable financing mode | accounts receivable | financing company | purchase raw materials for production or daily operations | none | downstream core enterprises | upstream companies of core companies |

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|---|---|---|---|---|---|---|
| confirmed warehouse financing mode | prepayments | bank | pick up payment in batches or partial delivery right | Third-party logistics companies | upstream core enterprises | downstream enterprises of core enterprises |
| financing warehouse financing mode | inventory | Bank, third-party logistics companies | purchase raw materials for production or daily operations | third-party logistics companies | upstream core enterprises, third-party logistics companies | enterprise on any node |
| whole supply chain finance mode | inventory | bank, third-party logistics companies | purchasing goods, processing goods or daily operations | third-party logistics companies | third-party logistics companies | enterprises on intermediate nodes |

**Table1** shows the four models of supply chain finance reflecting the core concepts and characteristics of the supply chain finance and the fundamental change of model development, and an observation horizon of traditional credit. There are similarities and differences in specific business models. The similarities are as mentioned below.

(1) All the four models meet the financing needs of medium and small-sized enterprises for short-term production and operation.

(2) All the four models bundle the credit of the core enterprises in the supply chain with upstream and downstream medium and small-sized enterprises, not limited to evaluate the credit of a single enterprise but granting credit to enterprises based on the perspective of the entire supply chain.

(3) The focus is no longer on the company's static asset scale and financial data, but on dynamic and real transaction information.

(4) All four models did not require real estate as a collateral.

(5) Both can enable the enterprises to maintain normal, and continuous production and operation, and all the capital are provided to improve the operational efficiency of the entire supply chain.

(6) Third-party logistics enterprises are involved in most of the models.

(7) There are core companies or third-party logistics companies as guarantees, which may effectively reduce the financial risks.

(8) The mortgaged objects are under the control of banks, which further reduces the financing risks.

However, in the specific application and operation process, there are also differences between these four modes. For example, in the term of the daily operation of medium and small-sized enterprises, the activities of various links are intertwined and there is no strict division. Therefore, different financing purposes require different financing methods, different corresponding collateral, different repayment methods, and different financing risk bearers. Medium and small-sized enterprises can consider, adopt and use different financing modes according to their own situations.

## 6. Conclusion

Supply chain finance is a new type of financial product designed by commercial banks for the financing needs of weak, medium and small-sized enterprises in the supply chain. It can revitalize the current assets of medium and small-sized enterprises, at the same time improve their credit level. By designing different financing models according to the actual situation of the enterprises, meet their individual needs, and ultimately achieve a win-win situation for banks, medium and small-sized enterprises, core enterprises, and third-party logistics enterprises. The supply chain finance business in China can be divided into four modes, where each model has its own advantages and disadvantages, and the medium and small-sized enterprises may adopt different financing modes according to their own situation.

## Disclosure statement

The author declares no conflict of interest

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