



Supply Chain Finance (II)

Supply Chain Finance Innovation in *Manufacturing Industry*

The Li & Fung Management Book Series

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Management Theories and Business Models

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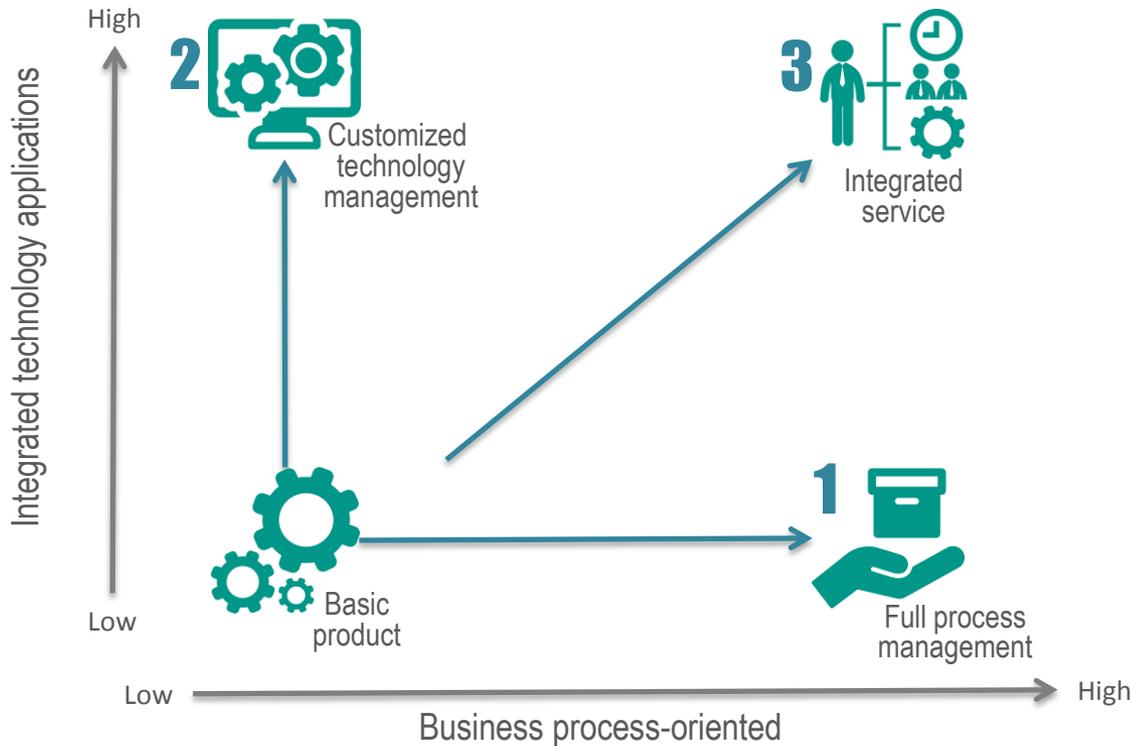
Development of manufacturing industry

- More and more manufacturing companies have made the strategic shifts from providing “products” to offering “service solutions” to their customers.



- “Servitization” or “service manufacturing” is the major direction for the development of manufacturing industry.
- The service-oriented manufacturing model is concerned with innovating an organization’s processes to create better mutual value through a shift from selling product to selling “product – service systems”.

Servitization strategies in the manufacturing industry



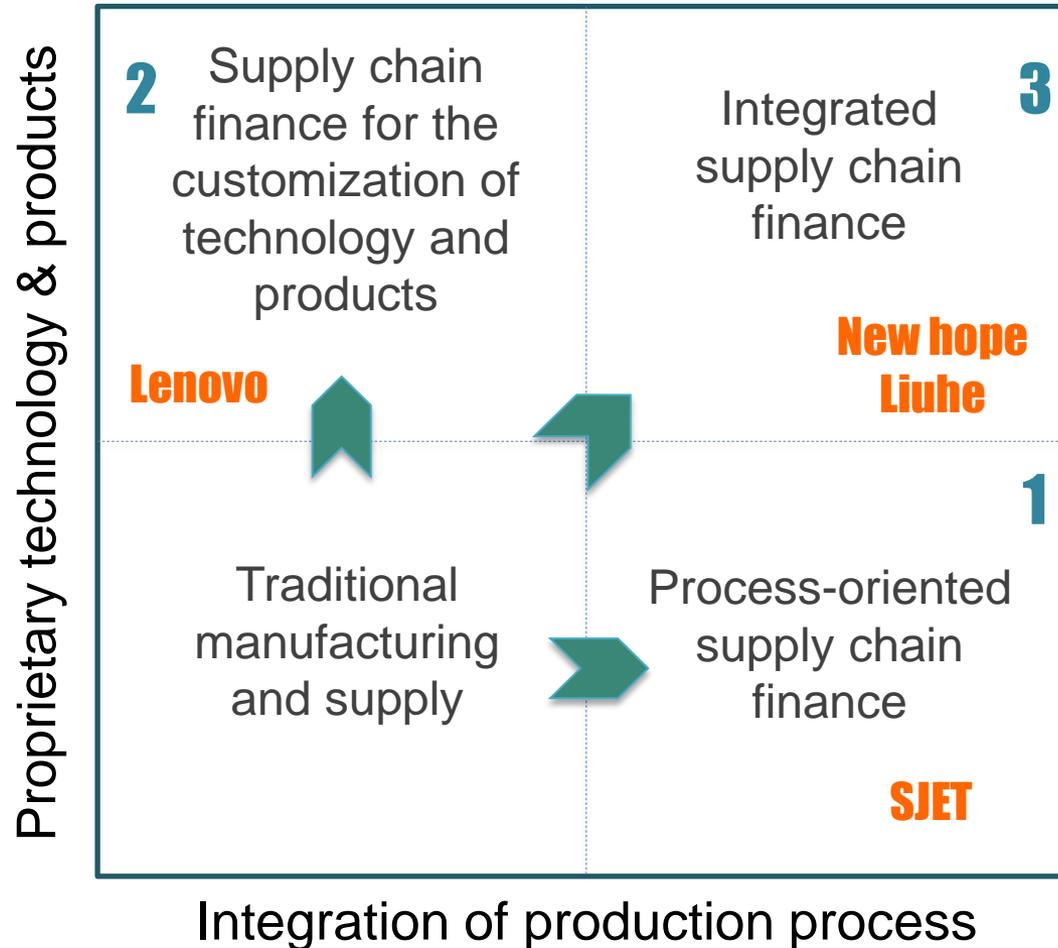
1 Business process-oriented service:
The integration of a company's business activities into the service supply chains or business processes of a customer in order to coordinate a multitude of similar cooperative or transactional activities to realize value addition for the customer.

2 Customized technology service:
This strategy requires companies to address the customers' differentiated and dynamic demand flexibly, and provide technology or product solutions according to the specific needs of customers.

3 Integrated service:
It is the comprehensive integration of resources, capabilities, and knowledge by a company to fully satisfy the needs of its customers related to a specific event or problem

3 models of supply chain finance in the manufacturing industry

corresponding to the 3 types of servitization strategies



* With case studies

Model 1: Process-oriented supply chain finance

- This supply chain finance model
 - focuses on process integration
 - aims to realize the successful implementation of virtual manufacturing
- SMEs with great development potential are excluded from virtual manufacturing networks due to shortfalls in financial resources
- By tackling the funding bottlenecks of SMEs, process-oriented industry finance continuously infuses new energies into the virtual manufacturing network and improves both effectiveness and efficiency

Virtual manufacturing

emphasizes a new production capability that is realized through the integration of business processes and resources



Shenzhen SJET Supply Chain Co., Ltd. (SJET)



Founded in **2007**,
a spin off from the import/
export trade division of
SJET Technology, which
has established since
1995



Positioning: from an
import/ export trade agent
to an **integrated
supply chain
service solutions
provider**



The **7th largest import/
export enterprise** in
Shenzhen, in terms of
total trade value (2014)
Top 6 Taxpayer in
Huanggang, Shenzhen
(2014)



**Core
businesses:**
Supply chain +
Internet + Finance



Financial data:
Sale volume **grew by
an annual rate of
60%**.
Exceed 40 billion RMB
have been funded for SME
within 5 years



Targeted industries:
IT products, electronic
components,
telecommunications
products, FMCG, medical
equipment, new energy
products, and consumer
electronics products



Offices in Beijing,
Shanghai, Chongqing,
Hong Kong, Shenzhen
Futian Free Trade Zone
and Qianhai



Work with
**>3,000 suppliers
and >100
manufacturers**

Case: Virtual Manufacturing

SJET's Client: Company A

- A leading global player in wireless communications technology products and services

Headquarter: Shanghai

Branch offices:
Beijing, Shenzhen, Xi'an, Hong Kong,
Japan, India, and Vietnam

Employees: > 3,000
(70% are R&D engineers)

Markets: Asia, Europe and America

Challenges facing Company A:

- High cost in organizing production and parts assembly in different markets
- Cash flow hold for prepayments of materials

SJET proposal:

An integrated virtual manufacturing financing solution for Company A
(See Slide 8)

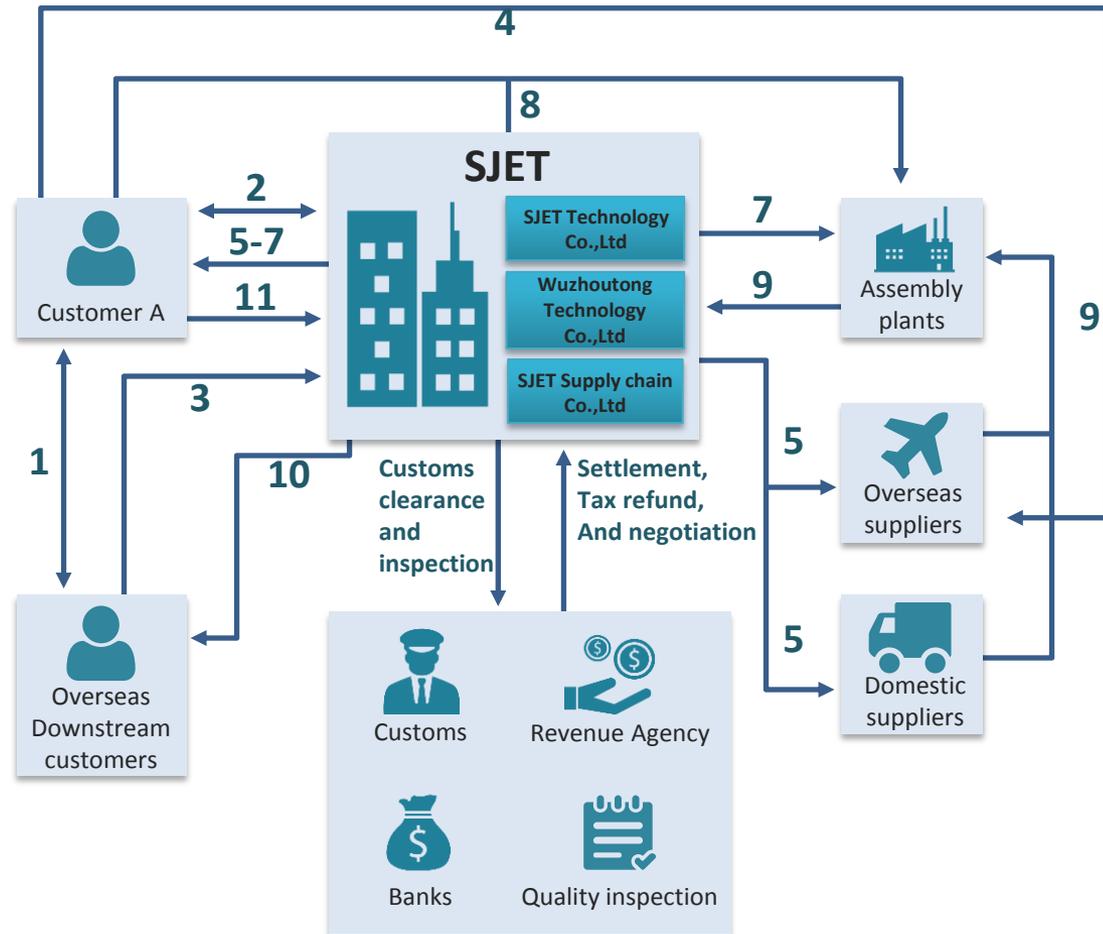


Results:

- Company A lowers its transaction cost and focus on product development and design
- Joint quality control with SJET helps ensure consistent product quality
- Company A overcomes the shortage of funds, achieves business growth and raises satisfaction of its downstream customers

SJET's virtual manufacturing financing solution

1. Confirmation of technical parameters and signing the sales and purchase agreement
2. Reaching cooperation
3. Agreement
4. Placing the purchase orders, L/C
5. Specifying suppliers for key components
6. Payment and invoices
7. Supplying raw materials and parts
8. Paying the processing fees and issuing invoice
9. Joint quality control
10. Export distribution
11. Product payment



Model 2: Finance in the customization of technology and products

- In this model, the financial service provider leverages its own industry supply chain, in particular the established supply and distribution networks, to provide services targeting upstream suppliers and downstream customers
- For the financial service provider, this model brings the following benefits:
 - It is conducive to the developments of the industry supply chains
 - It promotes the effective integration of work flow, logistics flow, and funds flow
 - It enables better value creation of financial resources
- For the upstream and downstream partners, the financial service allows them to better focus on production and market expansion and lower the operating cost



Lenovo

Founded by Liu Chuanzhi in Beijing, named as Legend.

1984

Legend officially renamed as Lenovo, and acquired IBM's Personal Computing Division to become the 3rd largest personal computer company in the world.

Became market leader in China for ten consecutive years.

2005

2006

Entered the list of Fortune 500s with business revenue of USD 16.8 billion

Hit by the global financial crisis, and suffered a loss of USD 267 million

FY2007

FY2008

Unveiled the consumer business strategy to set foot in the global personal computer market.

2009

On the list of Fortune 500s again

2011

Purchased IBM's x86 server division and Motorola Mobility. Lenovo is aggressively expanding its supplier and distributor financing business; supply chain finance accounts for 20% of Lenovo's total revenue.

2013

Lenovo's market share climbed to a record high of 17.1%; for the first time, Lenovo became the champion in the global personal computer market.

Present

Model 2 - Case

Lenovo's supply chain finance service



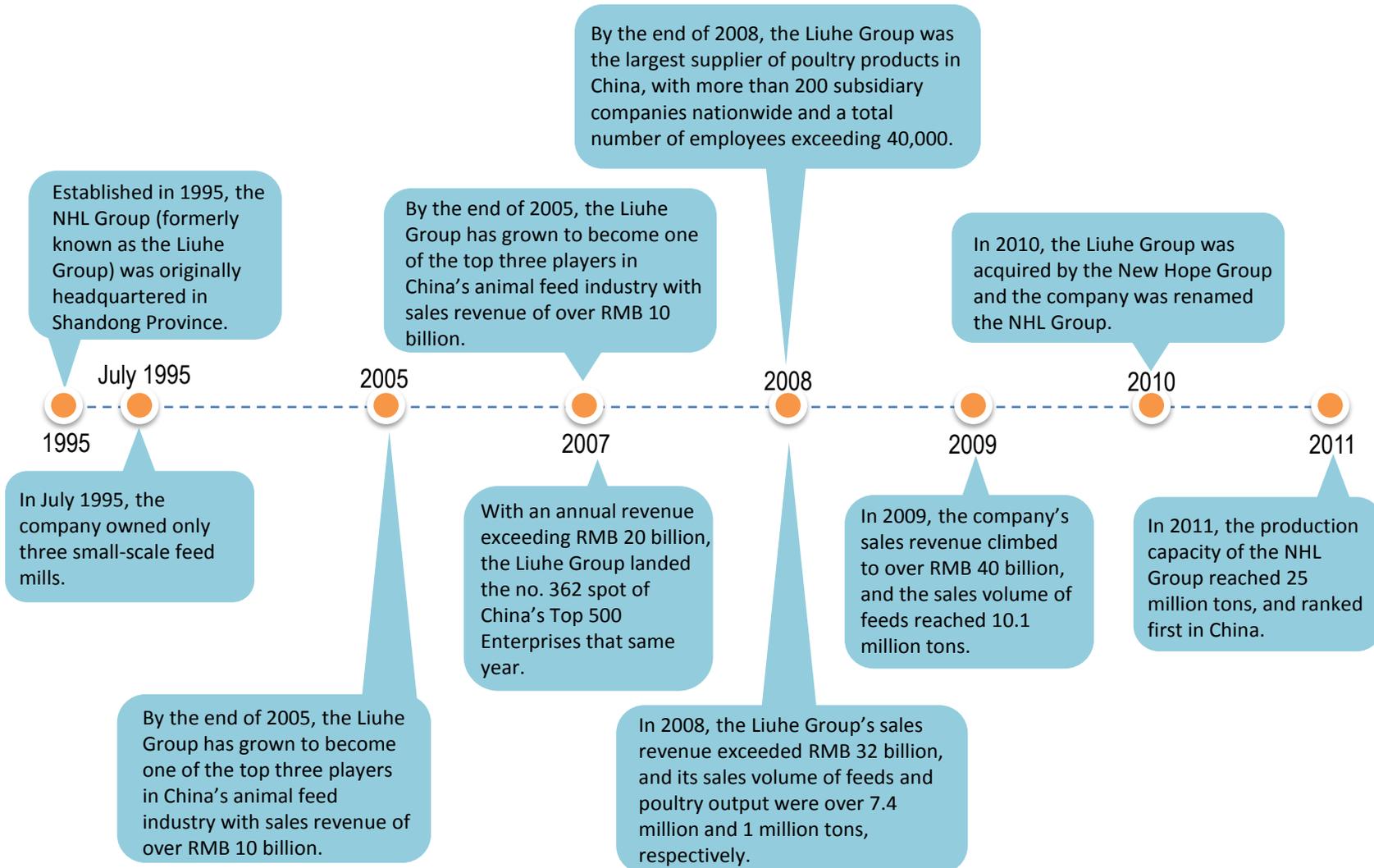
- For Lenovo, the financing service helps ease the cash flow problem of downstream customers, which is a definite plus for it to boost sales
- Owing to the solid reputation of Lenovo, downstream customers receive financing with lower margin deposit
- For the commercial bank, the information provided by Lenovo deepens its participation in Lenovo's supply chain operations

Model 3: Integrated supply chain finance



- This model combines the merits of the previous two supply chain finance models
 - It encompasses the entire manufacturing and operational processes
 - By incorporating the proprietary technology and products of the service providers and financial services, it stabilizes supply chain relationships
- In this model, the service provider plays the role of a network coordinator. It is both the platform provider of financial service and the risk manager.

New Hope Liuhe Group, NHL



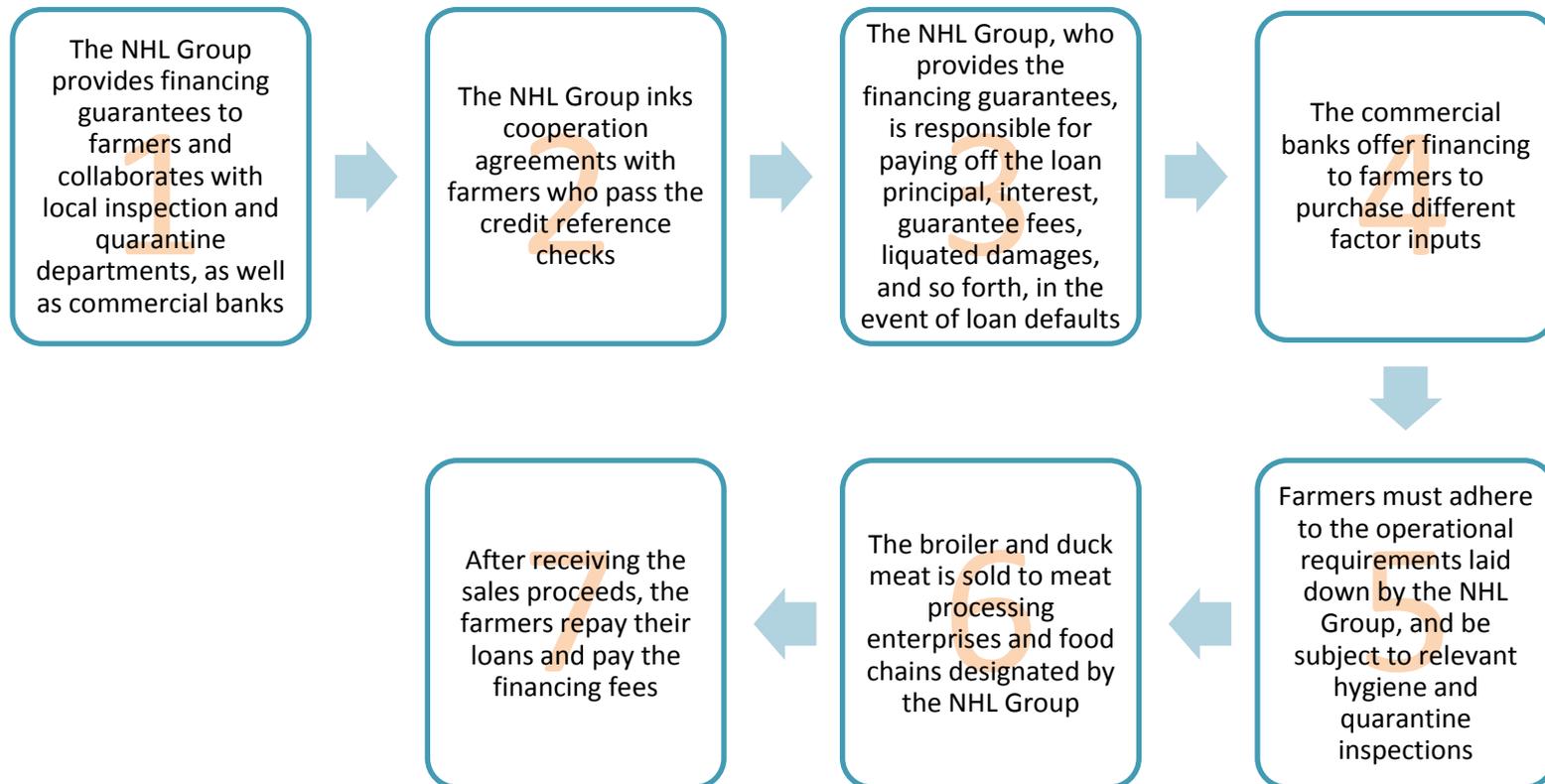
NHL Group's integrated supply chain finance solution

Industrial background of poultry production

- Despite rapid growth in China's broiler and duck meat consumption, development of the country's poultry production has been lagging far behind
- Due to poor level of integration, different processes such as materials supply, production, processing, and distribution operating in silos are the industry norm
- Most of China's poultry processing plants have rudimentary modes of operations, raising huge consumer concern about product quality and hygiene standards

NHL Group's integrated supply chain finance solution (Cont'd)

- To tackle the challenges facing the poultry production, the NHL Group launched an integrated supply chain finance solution, targeting the industry chains of broiler and duck meat



NHL Group's integrated supply chain finance solution (Cont'd)

Results:

- The financing model removes the financing bottlenecks of farmers and helps secure the supply of necessary factor inputs
- The product sales channels by the NHL Group greatly secure farmers' incomes, lowering the transaction cost in the production processes
- To the NHL Group, the model facilitates the sales of factor inputs, and ensures the stable supply of high-quality meat to its designated meat processing enterprises and international food chains, which is essential in building a safe and reliable poultry product supply chain

REPORT SERIES

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- 4 Supply chain finance innovations in logistics industry
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- 6 Supply chain finance innovations in e-business

Source

This report is based on the book “Supply Chain Finance”, written by Prof. Song Hua.



Song Hua is a Professor of supply chain management at the School of Business, Renmin University of China. He is also a market research and regulative expert at the Ministry of Commerce, the Assistant Secretary General of the Chinese Society for Management Modernization, and the Chairman of the Beijing Modern Institute of Enterprises Research. His main research interests include service supply chain, inter-firm relationships, and supply chain flexibility.

Prof. Song has published over 60 papers in refereed conferences and journals including Asia-Pacific Journal of Management, Transportation Journal, Decision Sciences, International Journal of Operations and Production Management and Chinese Management Studies.



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