



Supply Chain Finance (III)
**Supply Chain Finance Innovation in
*Trade and Distribution Industry***
The Li & Fung Management Book Series

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Management Theories and Business Models
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Capabilities of modern distribution companies



Modern
distribution
companies



Supply chain operations capabilities

Reflects in the performance of various aspects of distribution logistics



Relationship building capabilities

Refers to the ability to develop and maintain relationships with suppliers and downstream customers

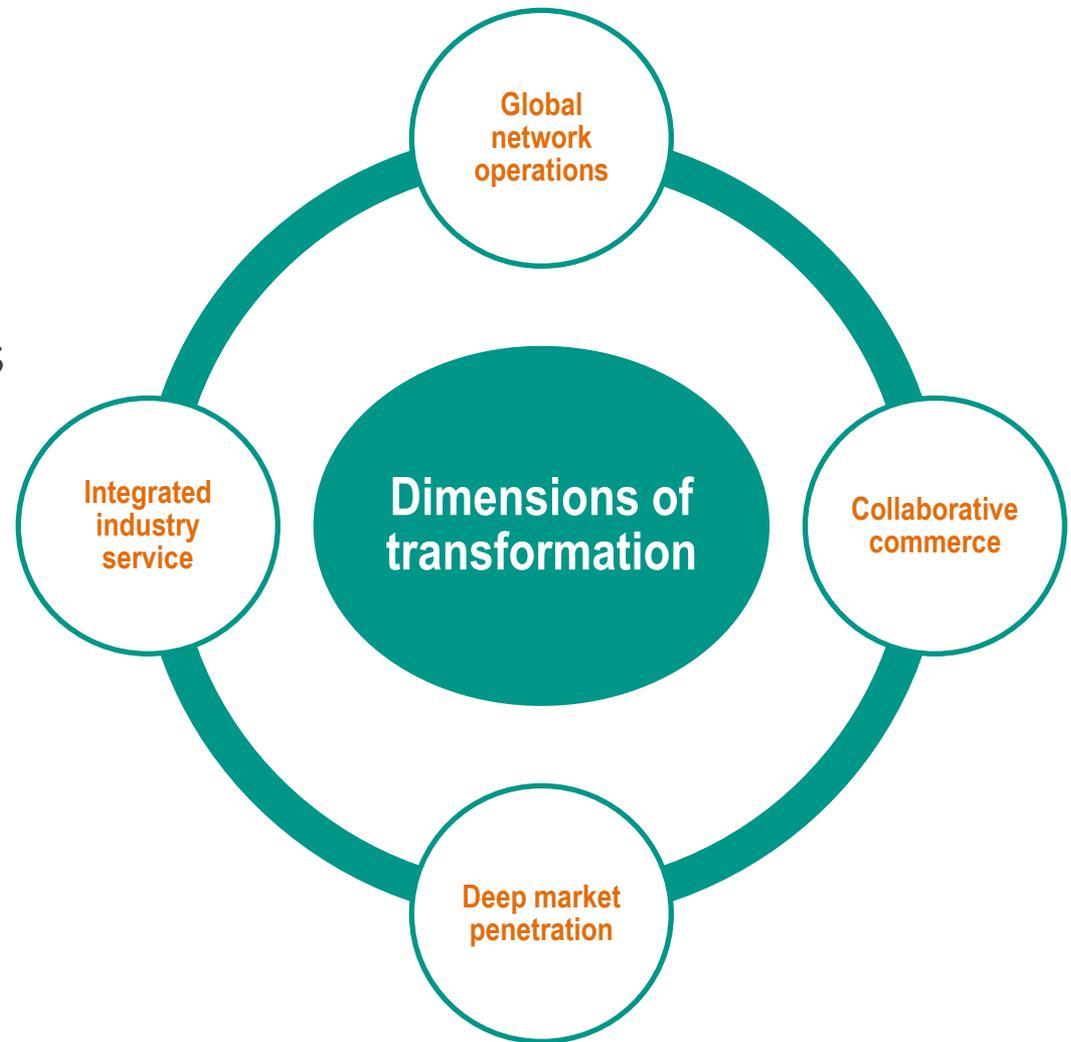


Capabilities to develop transaction processes

Reflects in the smoothness of the supply chain transactions and the degree of market expansion. Sales and operations planning, funds management and supply chain financing are all relevant components

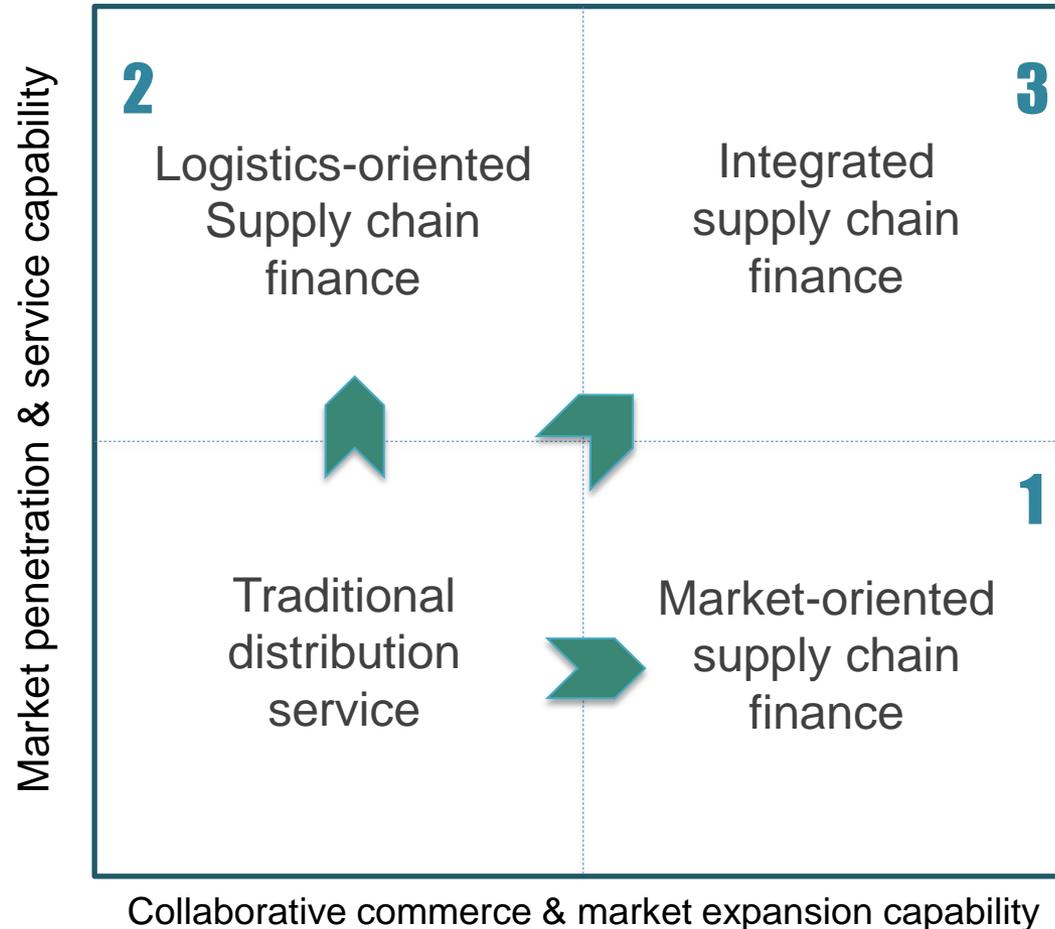
Transformation of the trade and distribution industry

- Today, an increasing number of distribution companies are seeking to transform themselves into integrated logistics and service providers, so as to overcome the pressing challenges of disintermediation



3 models of supply chain finance in the trade and distribution industry

- based on the 4 dimensions of transformation



Model 1: Logistics-oriented supply chain finance



- Nowadays, many manufacturers do not possess strong logistics capabilities/know-how nor own any advanced logistics facilities. This provides an opportunity for distribution companies with advanced logistics capabilities. They can offer speedy distribution services and financing solutions to both upstream and downstream customers
- These logistics-oriented supply chain finance service providers possess strong logistics capabilities; they offer comprehensive logistics services, such as warehousing, distribution, customs clearance, and quality inspection
- However, they have limited participation in clients' collaborative commerce and market expansion activities, and the business flow of the supply chains. Instead, these companies have a major function in linking the financial and logistics businesses
- See also case: YH Global



Model 2: Market-Oriented supply chain finance

- Market-oriented supply chain finance service providers have relatively strong collaborative commerce and market expansion capabilities. They can effectively organize different parties in the supply chain



- The market-oriented supply chain service providers serve as the platform provider, as well as the coordinator
- However, they have limited participation in actual logistics operations. Their supply chain finance solutions are built upon the collaborative commerce process
- See also case: OneTouch

Model 3: Integrated supply chain finance

- Integrated supply chain finance service model has the merits of both the logistics-oriented and market-oriented models
- Leveraging financial service, the service providers not only possess market penetration and logistics capabilities, but also help customers find new growth points and cut the entire transaction cost in supply chain operations by coordinating the information and business flows of customers' upstream and downstream operations
- Indeed, the service provider is both the coordinator and orchestrator of the supply chain operations



Case 1: Shenzhen YH Global Logistics Co., Ltd (YH Global)



Founded in **1997**, YH Global established itself as a freight service provider



Multinational and domestic clients: Philips, Intel, Samsung, Dell, LG, Foxconn, BenQ, Quanta, TPV, Lite-On, Hasse, CPT, etc.



Today, YH Global is one of **China's largest integrated logistics service providers in the IT industry.** It ranks first in the LCD panel logistics business



With a total registered **capital** of RMB 600 million Yuan, YH Global has 8 major bases, 16 offices, and 30 service locations both at home and abroad.



YH Global's **supply chain service modules:** transportation and distribution, international freight forwarding, import/ export agency, VMI/JIT warehousing, bonded logistics, global sourcing and distribution, supply chain finance, and sales channel management.

Case 1: YH Global & Philips

YH Global's Client: Philips

- A leading global industrial company focusing on the electronic, health tech and lighting markets

1997

YH Global began its collaboration with Philips. YH Global was responsible for Philips' raw materials logistics operations, such as customs declaration, transportation, and warehousing

2004

YH Global deepened its cooperation with Philips by taking charge of the latter's domestic sales transportation, as well as import/export trade agency businesses

2005

YH Global became the exclusive distribution agent of Philips in southern China

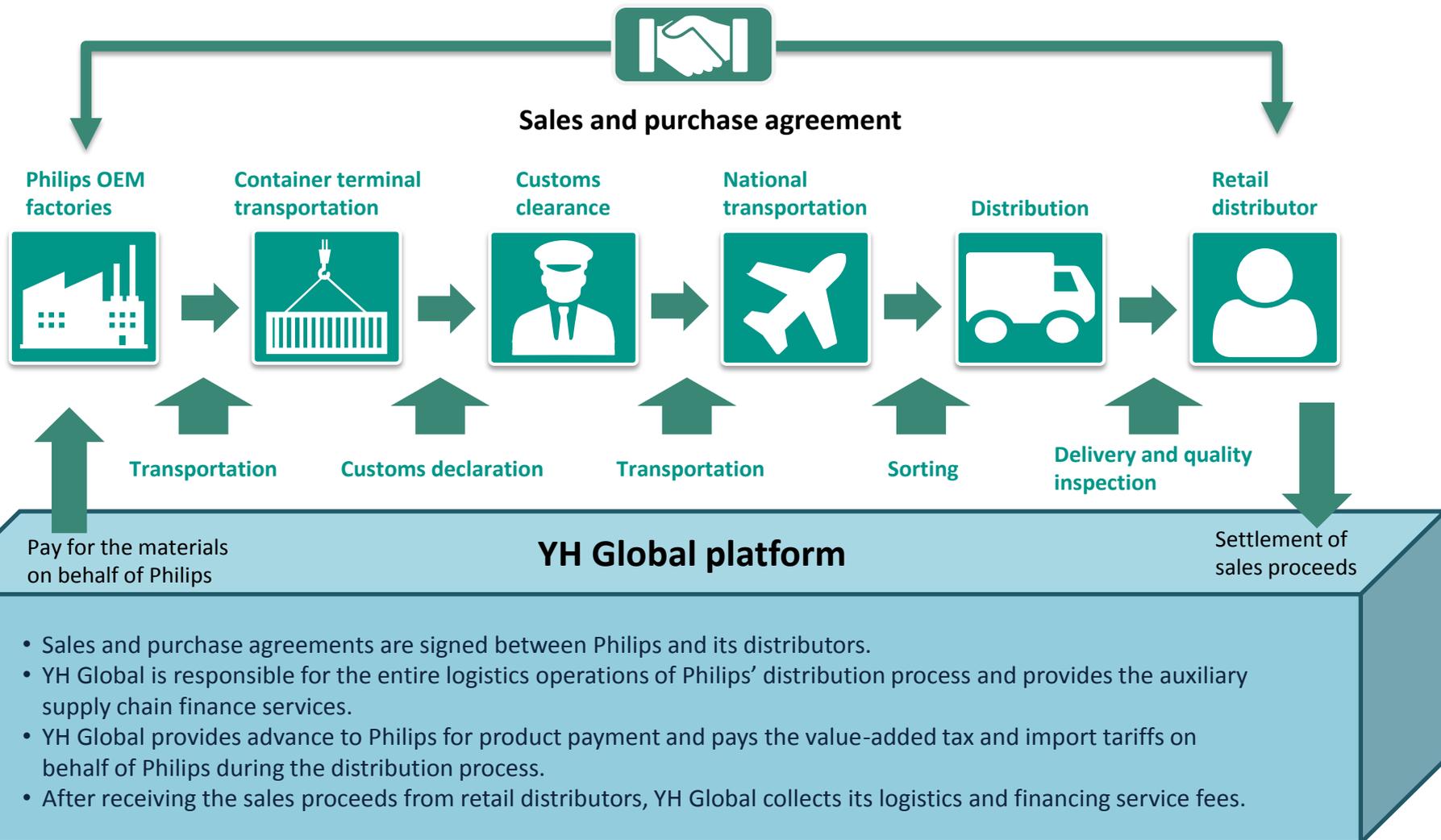
2007

Philips further outsourced a range of logistics operations to YH Global for consolidation. Prior to the cooperation with YH Global, Philips relied on different companies to manage various aspects of its product distribution

Up to present

YH Global served as Philips' integrated logistics service provider; and leveraging its logistics capabilities. YH Global also looked to provide auxiliary supply chain finance solutions to Philips

Case 1: YH Global & Philips (Cont'd)



Case 1: YH Global & Philips (Cont'd)

Results:



For Philips

- Centralized logistics operations by YH Global reduce the transaction cost and ensure product quality and safety.
- The financing service by YH Global accelerates its cash conversion.



For YH Global

- The collaboration with Philips enables YH Global to be better integrated into Philips' operating process.
- The supply chain finance service also represents a new source of income for the company.



For Philips' distributors

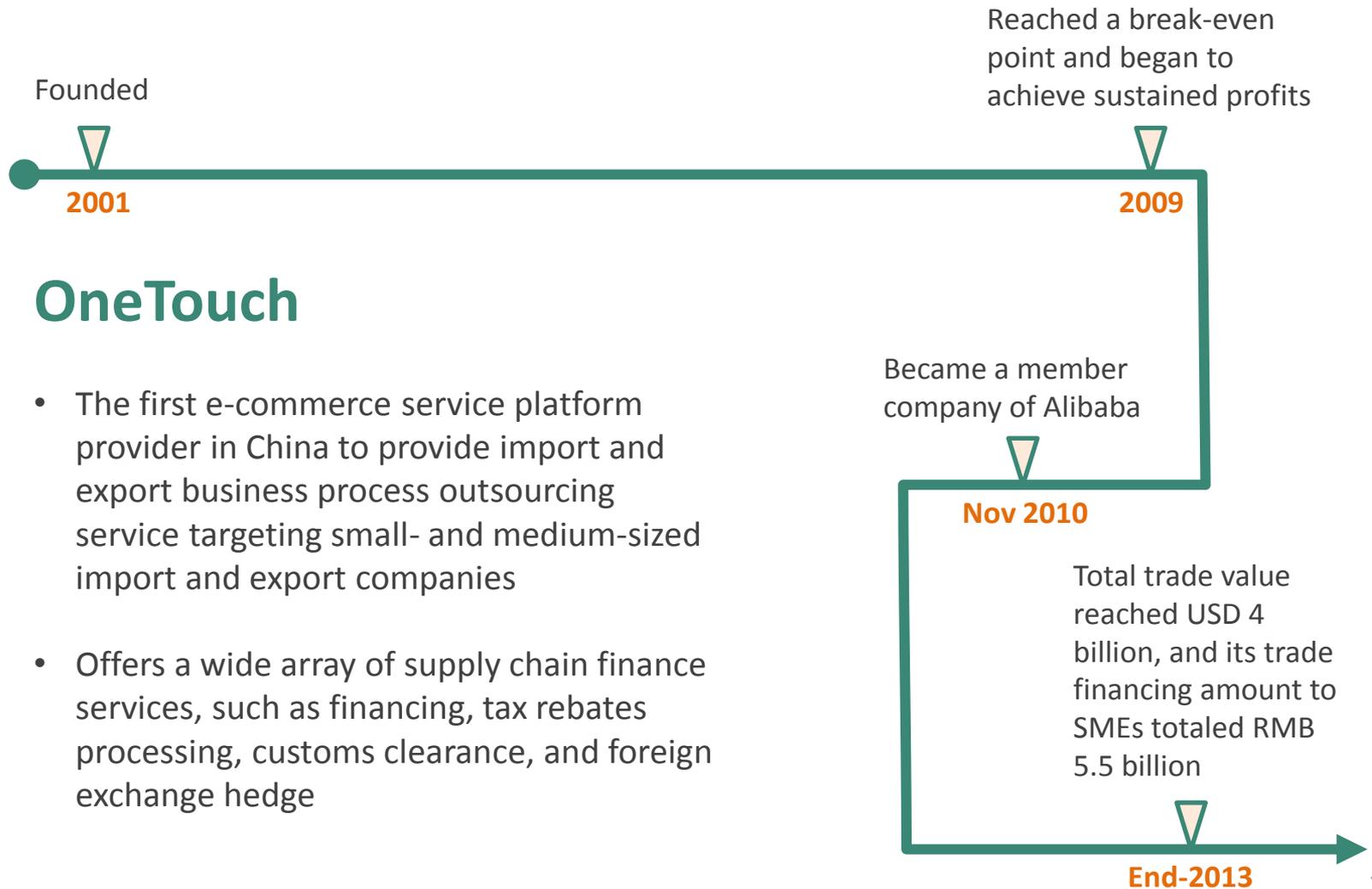
- More efficient logistics flow lowers the entire transaction cost, which translates into better pricing of Philips' products.
- YH Global also provides financing to the distributors, easing their pressure in making full product payment to Philips.
- YH Global also helps them secure product supply and enjoy the benefit of volume discounts.



Limitation

YH Global only plays a limited role in managing the business flow of the supply chain, and its price negotiation power is not strong. The supply chain finance model is more driven by YH Global's logistics capability than by its market control.

Case 2: Shenzhen OneTouch Enterprise Service Co., Ltd. (OneTouch)



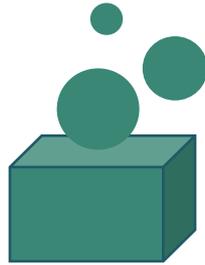
Case 2: OneTouch



Finance service for open account trade:

- OneTouch's e-Credit line targets customers participating in open account transactions. Customers can receive a financing amount of up to 80% of the goods value within three business days, greatly easing their cash flow pressure.
- To be eligible for the e-Credit Line, customers must use the customs clearance and logistics services by OneTouch, and let OneTouch collect the payment on behalf of them as well.
- The overseas buyer of the customer must pass the credit check by the China Export and Credit Insurance Corporation.
- Payment terms of the open account transactions must be audited by OneTouch and should not be longer than 120 days.
- See also slide 15

Case 2: OneTouch(Cont'd)

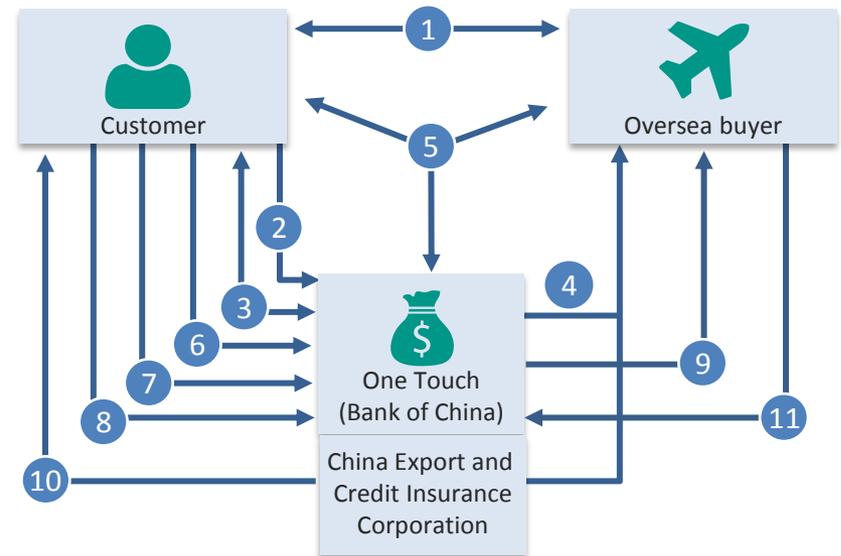


OneTouch's online collaborative commerce platform offers a number of benefits:

- It lowers the supply chain cost of SMEs.
- It accelerates cash conversion of SMEs.
- Informatization expedites customers' import/export process.
- Online platform helps boost the efficiency of government agencies, such as the Customs, Inspection and Quarantine Bureau, State Administration of Taxation, and State Administration of Foreign Exchange.

Case 2: OneTouch's e-credit line

1. The customer concludes the transaction on the OneTouch purchasing platform.
2. The customer applies for the e-Credit line online.
3. OneTouch will contact the customer for an application review within a week, and if qualified, both sides will sign the basic service agreement.
4. The customer provides OneTouch with the information on the overseas buyers, as well as the fees for buyer credit check. Meanwhile, OneTouch commissions the China Export and Credit Insurance Corporation to conduct the credit check.
5. The customer, overseas buyer, and OneTouch ink a tripartite cooperation agreement and conduct a financial audit to ensure that there are no past records of default.
6. OneTouch determines the credit terms and limit for the customer.
7. The customer signs the sales contract with the overseas buyer after OneTouch completes the auditing.
8. The customer delivers the goods in keeping with the agreement.
9. The customer presents all delivery invoices to OneTouch, and OneTouch provides the customs clearance and logistics services.
10. The customers will receive the agreed financing amount within three business days.
11. Upon buyer's confirmation of receipt of the goods, OneTouch collects the sales proceeds and pays the remaining balance to the seller.



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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.

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