



Supply Chain Finance (VI)

Supply Chain Finance Innovations in e-business

The Li & Fung Management Book Series

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Management Theories and Business Models

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3 forms of e-business applications in supply chains

E-commerce

- sales activities
- a network of supply chain players identify and respond quickly to customer demand captured over the Internet

E-procurement

- arises as a result of flexible manufacturing
- allows buyers and sellers to locate one another via internet platform and effectively integrate activities such as raw material information acquisition, credit management, ordering, logistics arrangement and management, and settlement and payment

E-collaboration

- an integration of e-commerce and e-procurement
- uses the Internet to link the supply chain front-end and back-end operations and handles the entire supply chain process from raw material procurement through production planning, inventory management, transportation, sales and distribution to customer service, etc.
- stresses the strategic importance of sharing of information and knowledge, such as sales data, inventory status, production planning, promotion planning, demand forecast, transportation planning, new product planning, etc.



Model 1:

Supply chain finance innovations in e-commerce

- Supply chain finance innovations in e-commerce seek to consolidate the transactional and logistics information on e-commerce platforms with platform operators' strong data analysis and operational management capabilities.
- Targeting buyers and sellers on the sales platforms, e-commerce platform operators collaborate with financial institutions to provide integrated pre- and post-transaction financial services
- 4 prerequisites of launching innovative supply chain finance solutions in e-commerce

Platform operators possess strong capabilities in managing customer, order, merchandise, sales, customer service, purchasing, inventory, warehouse, returns, and financial matters

Platform operators possess strong operational capabilities and are able to maintain good relationships with both buyers and sellers

There should be a relatively large operating scale with high transaction frequencies



There should be a solid understanding of the transaction and supply chain operations processes, as well as strong risk management capabilities

- Case: JD.com

Model 2:

Supply chain finance innovations in e-procurement

- E-procurement supply chain management focuses on the integration of physical flow, funds flow, and information flow in the procurement, manufacturing, and distribution processes via Internet
- Effective integration of multiple systems, such as ERP, SCM, CRM, credit management, and transaction monitoring systems is crucial to achieve information sharing and business process automation in e-procurement
- 4 prerequisites of launching innovative supply chain finance solutions in e-procurement

Strong industry consolidation capability to establish industry supply chains by means of knowledge management, credit management, demand and supply management, logistics management, currency risk management, and financial management

Capability to use the Internet to effectively integrate the supply chain, logistics, and financial processes



Relatively strong credit management capabilities, including supplier certification and customer credit management capabilities

Ability to analyze and disseminate information in a swift and accurate manner to lower trading cost



Model 3:

Supply chain finance innovations in e-collaboration

- E-collaboration supply chains have a more extensive scope of operations and they impact the entire supply chain ecosystem by integrating e-commerce and e-procurement supply chains to enable collaborative decisions among supply chain players
- They restructure supply chain relationships to achieve information sharing and consolidation, collaborative design and innovations, and resource integration (including financial resource)
- 4 prerequisites of launching innovative supply chain finance solutions in e-collaboration

Possession of strong B2C or B2B operations capabilities



E-collaboration supply chain participants should have strong credit records

E-collaborative supply chain platform operators should have a well-established logistics management system, and be able to offer comprehensive solutions to customers, such as marketing, payment, warehousing, and distribution

Capability to operate and develop an interdependent supply chain ecosystem comprising players such as SMEs, Internet operators, commercial banks, and logistics companies

- Case: Alibaba.com

Case 1: JD.com



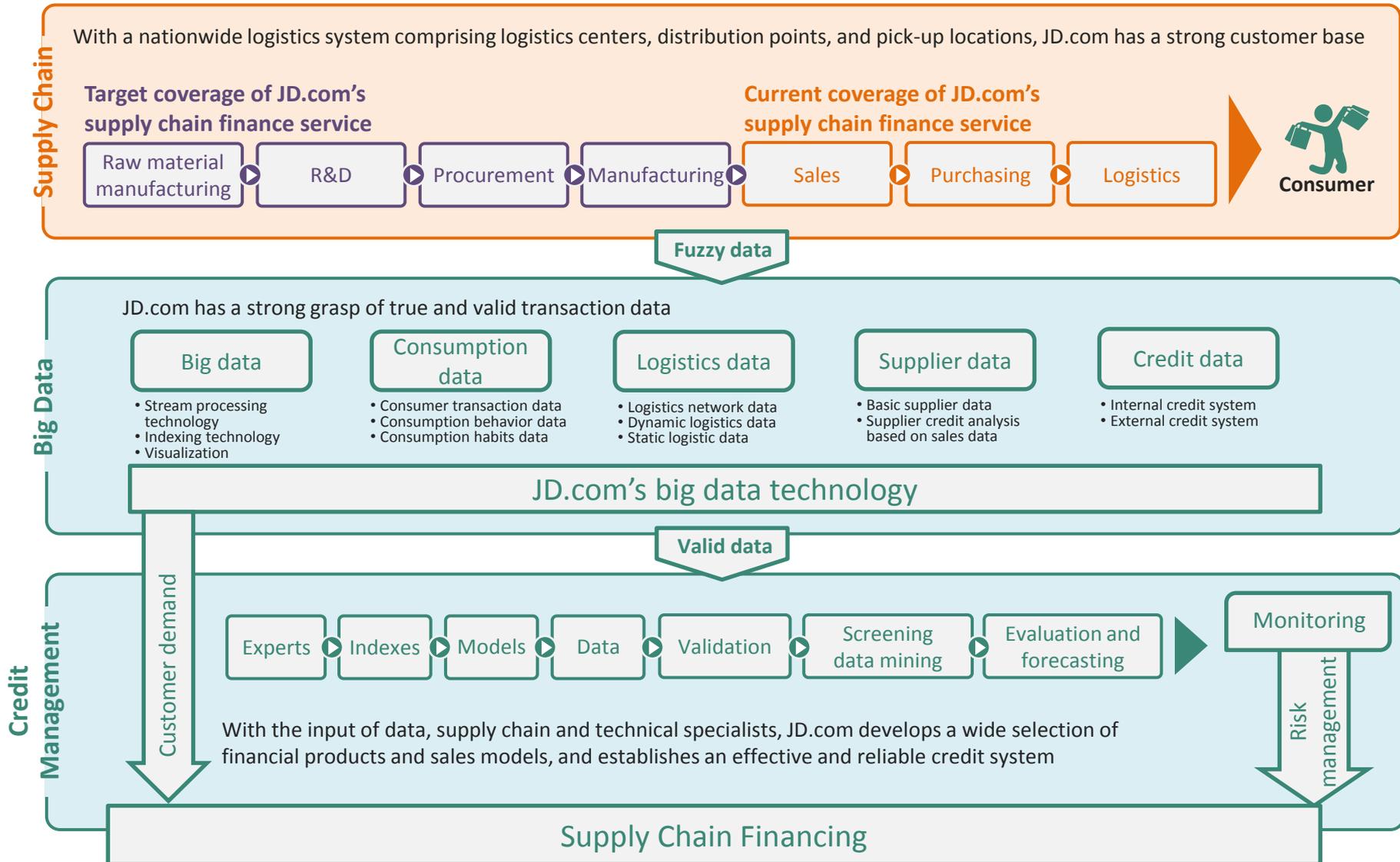
Background (2015)

- One of the largest online retailers in China
- > 100 million registered users
- > 40,000 suppliers
- Daily order processing volume > 1.5 million
- Daily page views: > 200 million
- Engages in the online sales of 13 major categories of products, such as home appliances, digital communications, computers, home merchandise, apparel, maternity and baby, books, and food.
- Comprises of self-operated open e-commerce platforms, nationwide logistics infrastructure and a strong customer base

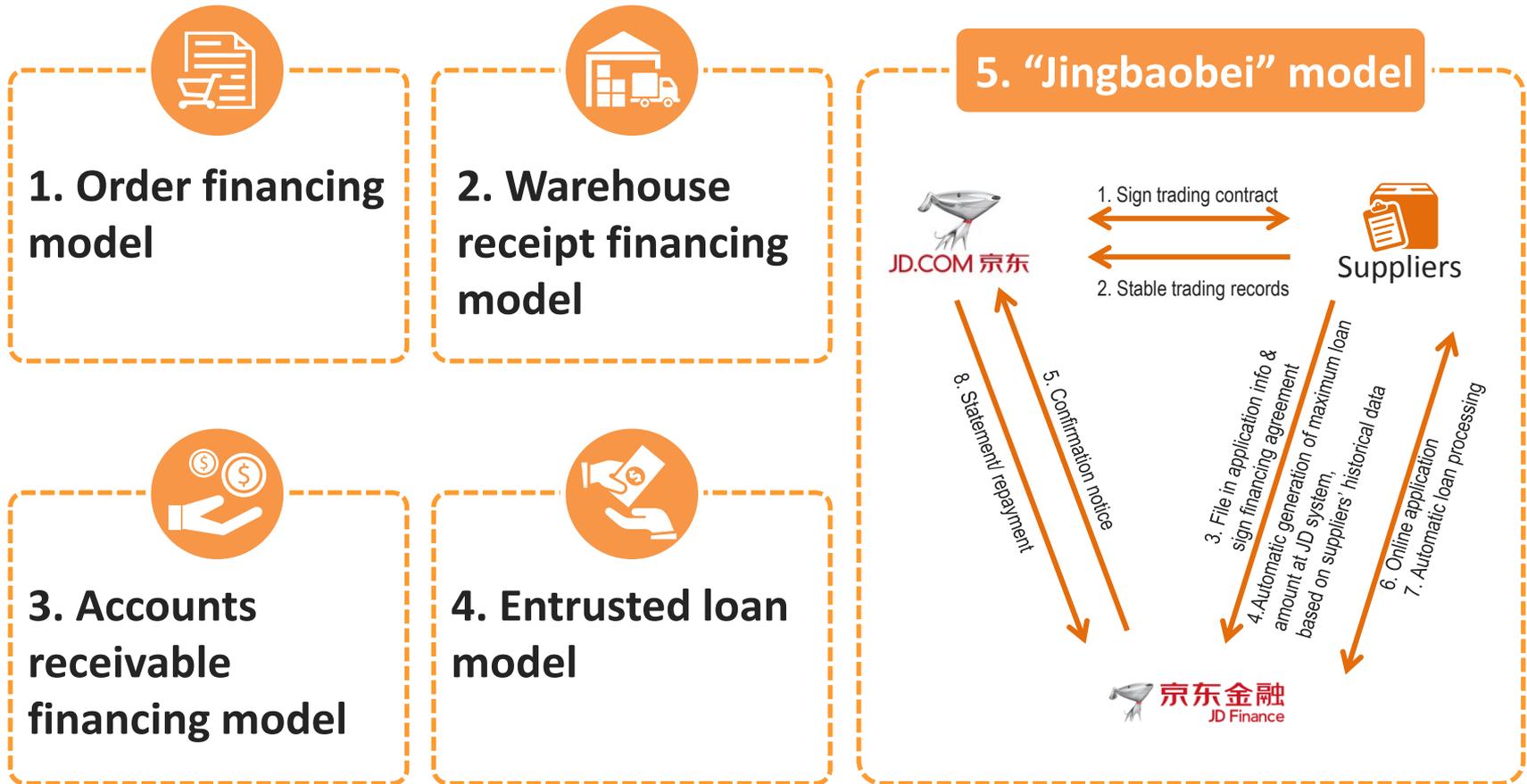
JD.com's supply chain finance

- JD.com offers supply chain finance service developed upon its e-commerce supply chain to its suppliers (see also next slide).
- Also, JD.com's supply chain finance service covers processes such as sales, purchasing, and logistics.
- JD.com plans to roll out its supply chain finance service to upstream processes such as raw materials manufacturing, R&D, procurement, and manufacturing.
- JD.com's strong control of transactional data including consumption, logistics, suppliers, and credit data is critical to its supply chain finance service. Using big data, JD.com develops customized supply chain finance solutions.

Case 1: JD.com's supply chain finance service



Case 1: JD.com's supply chain finance models



Case 1: Credit risk control of JD.com



using its e-commerce platform to **track** suppliers' operating conditions



strengthening **communications with commercial banks** to improve credit management



establishing a supplier **rating** system, and strengthening management of suppliers' accounts payable



strengthening **information exchange with suppliers**, so that JD.com can better serve its customers with the most competitive products

Case 2: Alibaba



- Founded by Jack Ma in 1999 as an online trading platform, Alibaba is today the largest e-business company in China
- The group's major businesses include:



Alibaba
(B2B platform across the globe)



1688
(Domestic B2B platform)



Taobao
(Domestic C2C platform)



Tmall
(Domestic B2C platform)



Aliexpress
(B2C platform - export)



Tmall Global
(B2C platform - import)



Juhuasuan
(Group buying platform)



Alipay
(Online payment)



Aliyun
(Cloud computing and data management)



Alimama
(Sales and marketing technology)



Cainiao
(Logistics)

- Those businesses represent Alibaba's dedication to establish an e-commerce industry chain
- The synergy created enables Alibaba to integrate its B2B and personal consumer platforms with sales and marketing, payment, financing, and logistics services to build a new B2B2C business model, that is, sellers on Taobao procure large quantities of products from SMEs on Alibaba's B2B platform and sell to domestic consumers

Case 2: Types of Alibaba supply chain finance



1. Loans provided using Alibaba's own funds

- This lending service is more flexible with a lower threshold, as it offers a lower credit limit
 - a) Taobao small loan: Sellers on the Taobao platform can apply for loans by pledging their sales orders
 - b) Ali small loan: Merchants on Alibaba's B2B platform can apply for loans based on their credit records; no collateral and security deposit is required



2. Loans offered in collaboration with the Bank of China

- This financing method offers a bigger credit limit, but also comes with higher requirements:
 - Enterprises applying for loan must be registered in Hangzhou (excluding Lin'an, Fuyang, and Chun'an counties), Taizhou, Zhoushan, and so forth
 - They must achieve annual sales revenue between RMB 5 million and 150 million
 - They must be in operation for more than 2 years
- Compared with traditional bank loans, this loan product requires no collateral or security deposit
- Enterprises can borrow a maximum amount of RMB 2 million

Case 2: Types of Alibaba supply chain finance

	1a. Taobao small loan	1b. Ali small loan	2. Loan jointly offered with the Bank of China
Type of platform	<ul style="list-style-type: none"> B2C platform; providing order financing and unsecured loans to sellers on Taobao and Tmall 	<ul style="list-style-type: none"> B2B platform; offering unsecured loans to corporate users on Alibaba 	<ul style="list-style-type: none"> Unsecured loans offered by the Bank of China
Credit limit	<ul style="list-style-type: none"> Order financing: <ul style="list-style-type: none"> Credit limit: < RMB 1 million Loan period: 30 days Unsecured loan: <ul style="list-style-type: none"> Credit limit: <RMB 1 million Loan period: 6 months 	<ul style="list-style-type: none"> Credit limit: RMB 50,000 – 1 million Loan period: 1 year 	<ul style="list-style-type: none"> Credit limit: RMB 500,000 – 2 million Loan period: 1 year
Lending methods	<ul style="list-style-type: none"> Loans for cash-strapped businesses; once approved, the amount will be immediately issued to customer's Alipay account 	<ul style="list-style-type: none"> Revolving loan: debtors have the flexibility to decide how often they want to withdraw from the loan and at what time intervals; it allows debtors to use as much of the credit as is available and only pay interest on what they have used Fixed loan: once approved, a one-time payment will be made 	<ul style="list-style-type: none"> No collateral or security deposit is required Debtors have the flexibility to decide how often they want to withdraw from the loan and at what time intervals, as long as the use of funds is over 1 month, helping them to cut down unnecessary interest expense Customized product for the users of Alibaba, thus with a higher approval rate
Source of profit	<ul style="list-style-type: none"> Order financing: daily interest rate at 0.05% Unsecured loan: daily interest rate at 0.06% 	<ul style="list-style-type: none"> Revolving loan: daily interest rate at 0.06% (annual interest rate at approx. 21.9%) Fixed loan: daily interest rate at 0.05% (annual interest rate at approx. 18.25%) 	<ul style="list-style-type: none"> Alibaba's technical service fee: 1% of the loan amount + daily interest rate of 0.03%

Case 2: Credit risk control of Alibaba



To mitigate its risk, Alibaba's credit scoring model taps numerous data sets within the group, including operational data, transaction data, online behaviour, value-added service, and new product launch, etc.



Alibaba also establishes a mechanism to shut down the online store fronts and accounts for customers missing loan payments, which helps control credit risk by raising the customers' cost of default.

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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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