

Supply Chain Finance in China



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SCF Management & Innovation: Cases in China

The Rise of FinTech in China

Reference



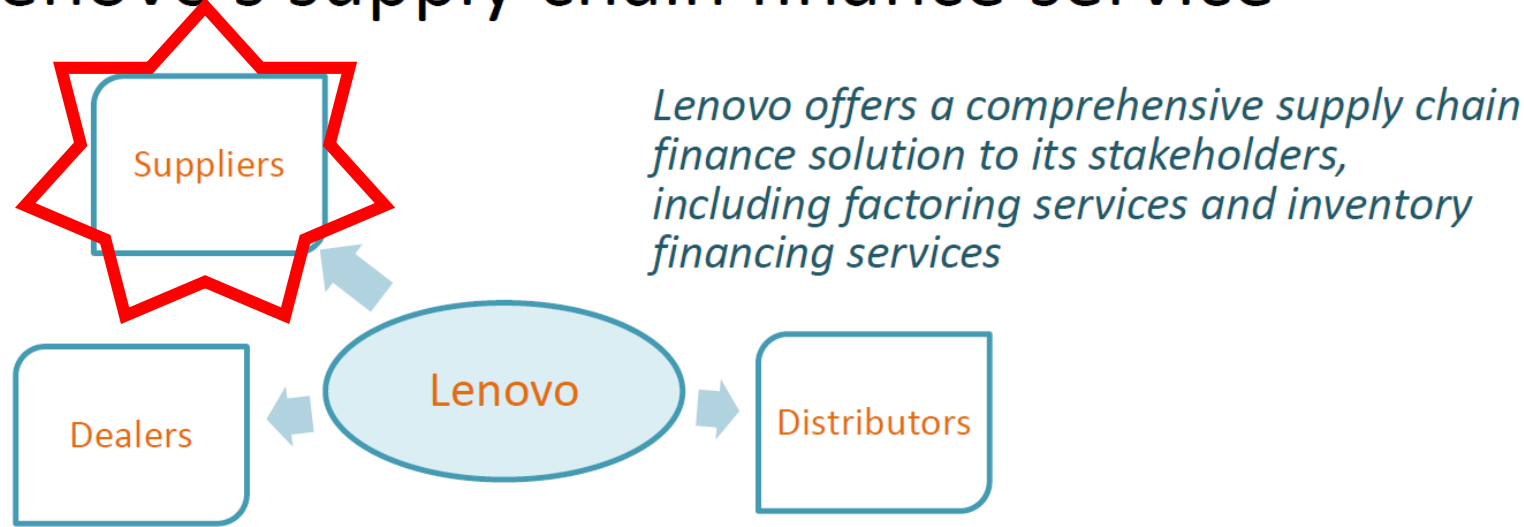


SCF Management & Innovation: Cases in China

Supply Chain Finance in Manufacturing Industry - Lenovo

Lenovo's supply chain finance service

lenovo 联想

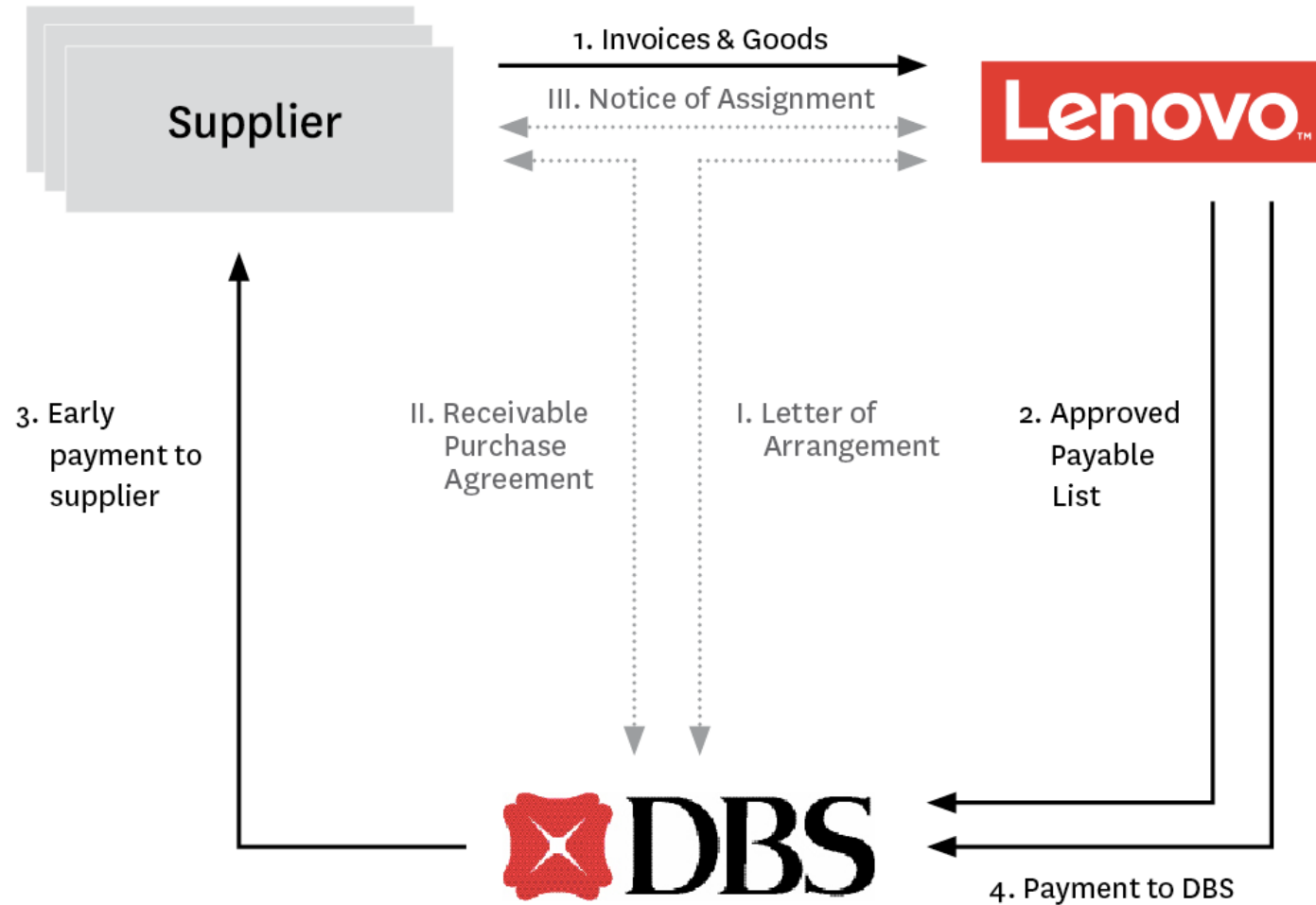


$$DPO = \frac{\text{Average Accounts Payable}}{\left(\frac{\text{Purchases}}{\text{\# of days}}\right)}$$

- 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

For Lenovo, the decision to extend its days payables outstanding (DPO), was precipitated by the acquisition of **Motorola Mobility** from Google in 2014, which placed a natural burden on the company's working capital.

Supply Chain Finance in Manufacturing Industry - Lenovo



Reverse Factoring

- cross-border supplier finance program
- improve its own cash conversion cycle
- while mitigating any drawback for its key suppliers.

→ Transaction Flow

.... Documentation Flow



Supply Chain Finance in Manufacturing Industry - Lenovo

❑ Benchmark Analysis

- Lenovo's treasury department discovered its DPO was approximately **a month shorter than** its major US-based competitors.
- Hoping to extend its DPO to an average of **90 days**, but at the same time not place too much pressure on its suppliers.

❑ Flexibility is key

- It's important to note that suppliers are **not pressured by either Lenovo or DBS** to discount all their invoices simply because they are on the programme.
- The discounting is dependent on their **supplier's own working capital needs** and they are **able to pick and choose when it works for them**.



*"We believed at the time, our **competitors** were using supply chain finance a lot more effectively than we were. We decided to put that right,"* Sriladda Chalermkarnjana, director, pensions and commercial financing at Lenovo.

Supply Chain Finance in Commercial Bank - PAB

Ping An Bank

Ping An Bank's online supply chain finance service platform (Orange E Network)

- Its information system is the backbone of its information-oriented supply chain finance service.
- Launched an online supply chain finance service platform (Orange E Network) to connect its stakeholders, such as customers, 3PLs, B2B platform providers
- Orange e network is to integrate the supply chain body of Ping An Bank's business platform and financial electricity supplier platform.
- The transaction volume on Orange-e-platform hit **RMB1.48 trillion**, soaring by 92.5% year on year. (Annual Report 2016)



平安银行
PING AN BANK

- It was the first bank in China to initiate and launch “**supply chain finance**” business model
- The past two years, Ping An Bank won the **Best Supply Chain Financial Services Bank**

平安银行
PING AN BANK

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Supply Chain Finance in Commercial Bank - PAB

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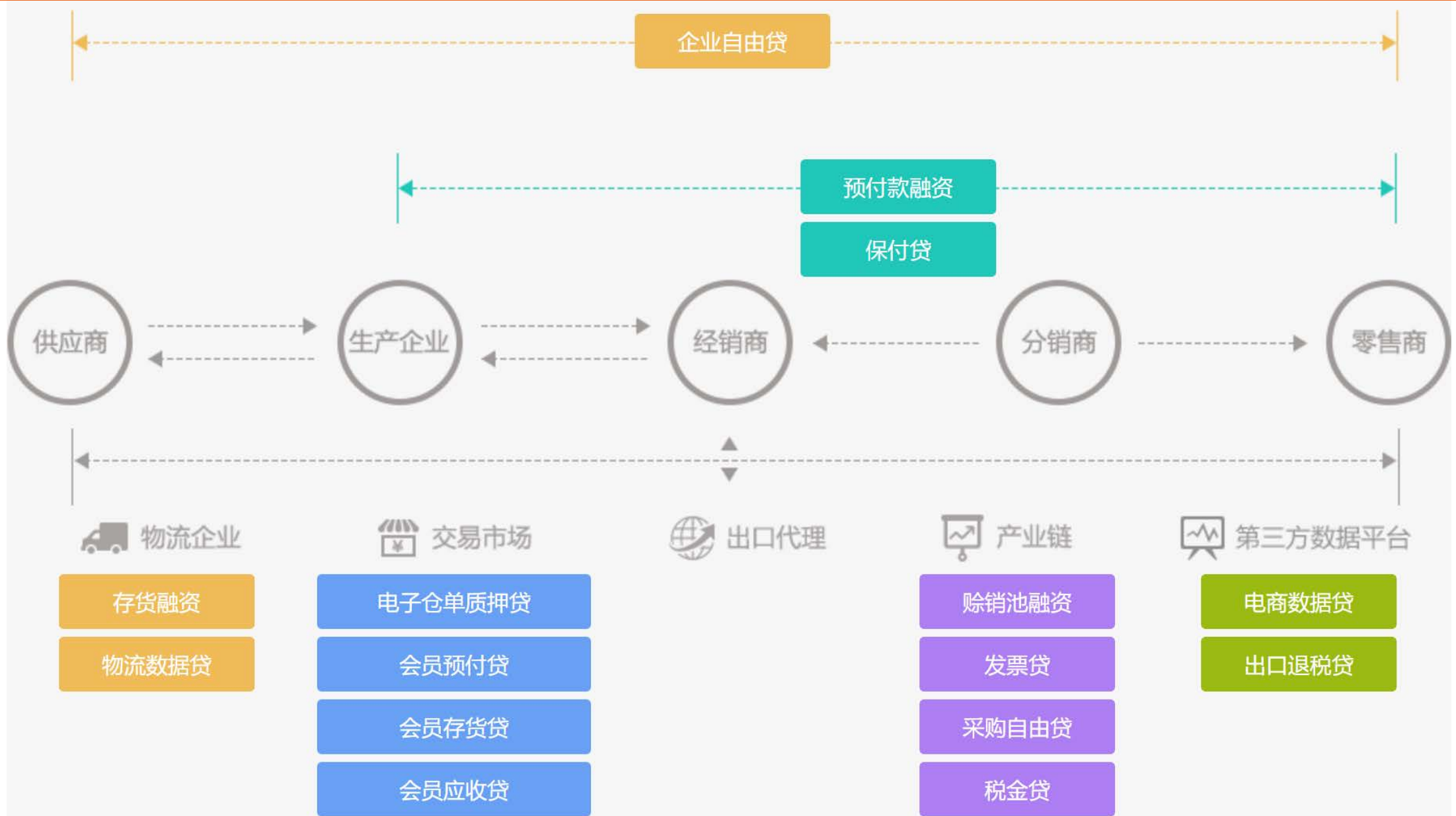
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Supply Chain Finance in Commercial Bank - PAB



Supply Chain Finance in E-Business - JD



JD Finance

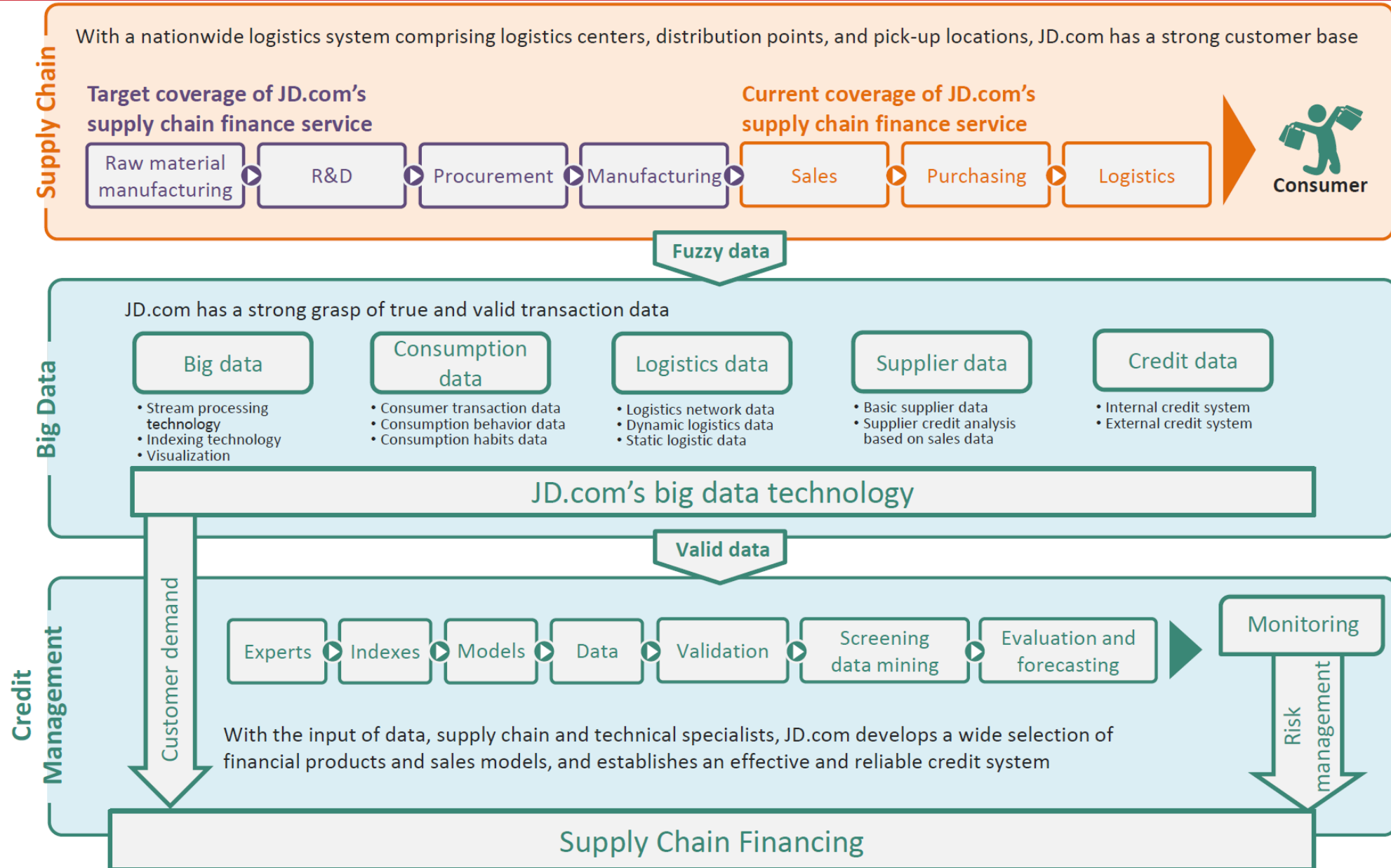
- JD Finance is the **financial technology arm** of JD.com. It was established in **2013** to give individuals and businesses **quick, easy and convenient access** to the financial services they need.
- Leveraging JD.com's **proprietary data resources, e-commerce expertise and industry-leading risk control** systems, JD Finance offers sophisticated financial solutions in areas including **consumer credit, supply chain financing, asset management, payment solutions and crowdfunding**.
- Using **big data**, JD.com develops customized supply chain finance solutions.
- JD.com plans to roll out its supply chain finance service to upstream processes such as raw materials manufacturing, R&D, procurement, and manufacturing.



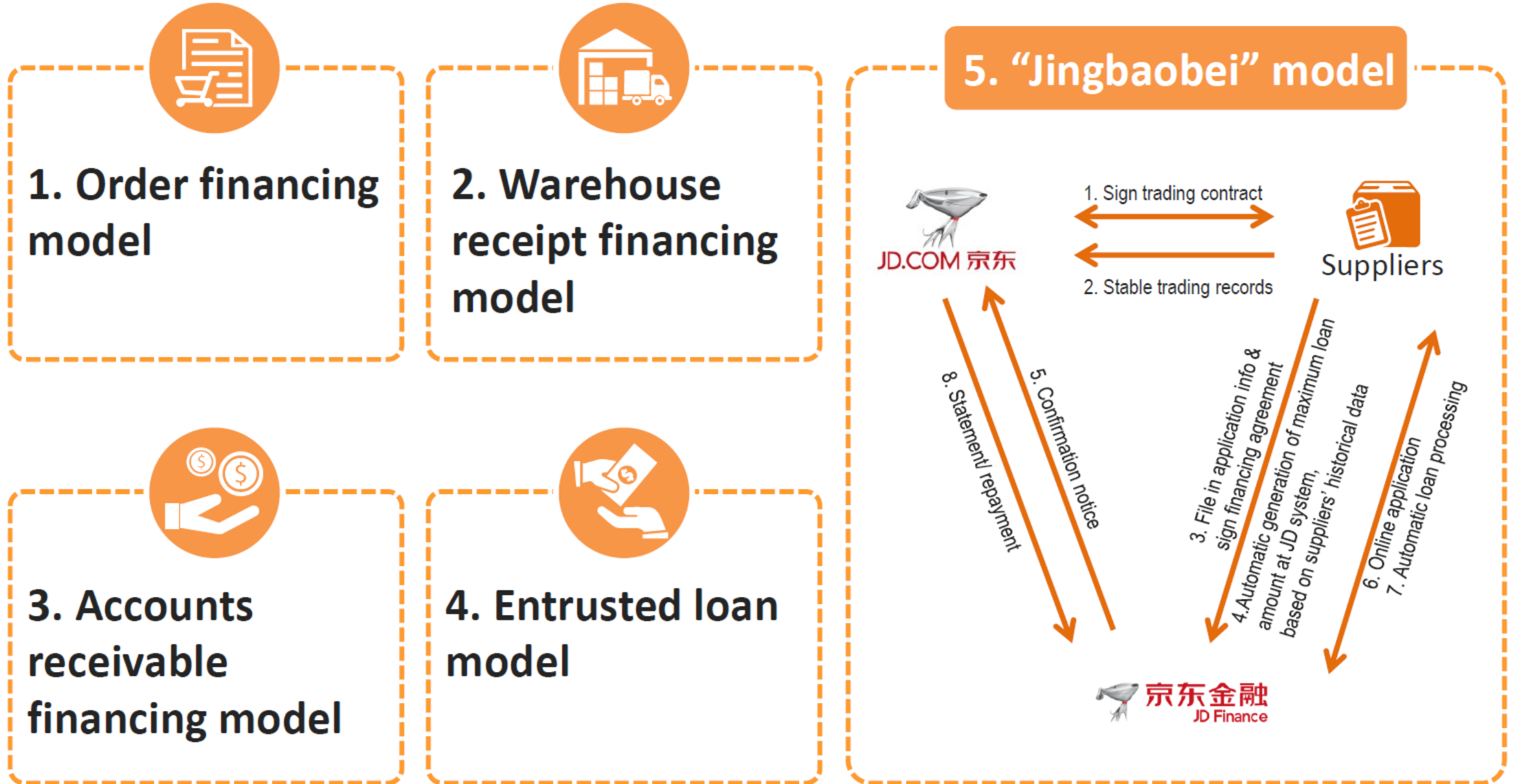
京东金融
JD Finance



Supply Chain Finance in E-Business - JD



Case 1: JD.com's Supply Chain Finance Models



Case 2: Alibaba Group



Valuation: \$60 Billion



Ant Financial Services Group, formerly known as **Alipay**, is an affiliate company of **Alibaba Group**.

- **Alipay**, the world's largest mobile and online payments platform
- **Yu'e Bao**, the world's largest money-market fund
- **Zhima Credit**, credit rating system
- **Mybank**, the online bank

Businesses covering: payment, wealth management, independent credit scoring and reporting, private bank and cloud computing services.

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.



The Rise of FinTech in China: Redefining Financial Services

FinTech in China & its Application in Supply Chain Finance

❑ Emerging Chinese FinTech

- FinTech refers to the *application of technology within the financial services industry*.
- The sector covers a wide range of activities from **financial data and analysis** to **financial software**, digitized processes and, perhaps most well-known to the wider public, **payment platforms**.
- China is emerging as a leading FinTech market not just in Asia-Pacific, but globally.

❑ Supply Chain Finance is a key vertical market for Chinese FinTech

- Supply chain and consumer finance E-commerce players lend to underbanked or unbanked individuals and small medium enterprises (SMEs) by leveraging users' merchant data on the platform.
- Key participants include **MyBank** (**Ant Financial**, Alibaba), **WeBank** with WeChat (Tencent), **JD Finance** (JD.com) and Gome Electronic Appliance, which recently ventured into providing financial services for individual customers and suppliers.

Chinese Fintech Firms Launch Blockchain Supply Chain Finance Platform

Samburaj Das on 07/03/2017

- An online marketplace lender and a subsidiary of a major electronics firm have united to launch '**Chained Finance**', *China's first blockchain platform for supply chain finance*.
- Named Chained Finance, the launch of blockchain platform was announced by **Dianrong**, an online marketplace tender and **FnConn**, a subsidiary of Taiwanese electronics manufacturing giant **Foxconn**, commonly known as the manufacturer of the iPhone.
- The two companies completed a successful pilot and proof-of-concept which secured funding for Chinese SMEs, with **US\$6.5 million (RMB45 million)** in loans originating for the enterprises.



"Blockchain is revolutionizing the finance industry and offers seamless solutions to any company operating and financing complicated supply chains," stated Dianrong founder and CEO Soul Htite.



Tradecraft and CreditEase to offer SCF in China

By SCF Briefing | April 6th, 2017

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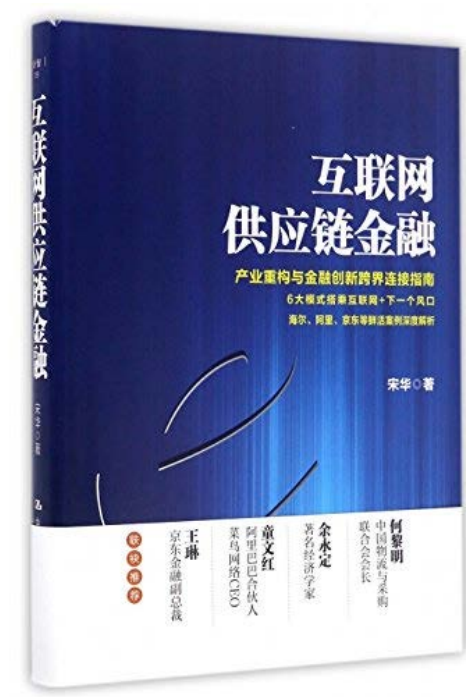
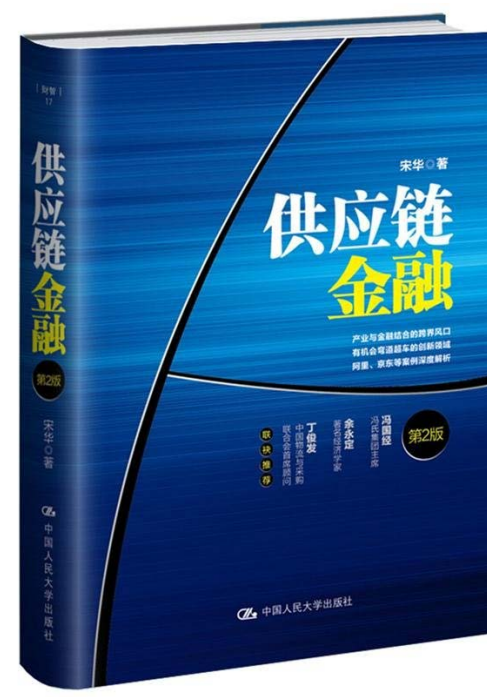
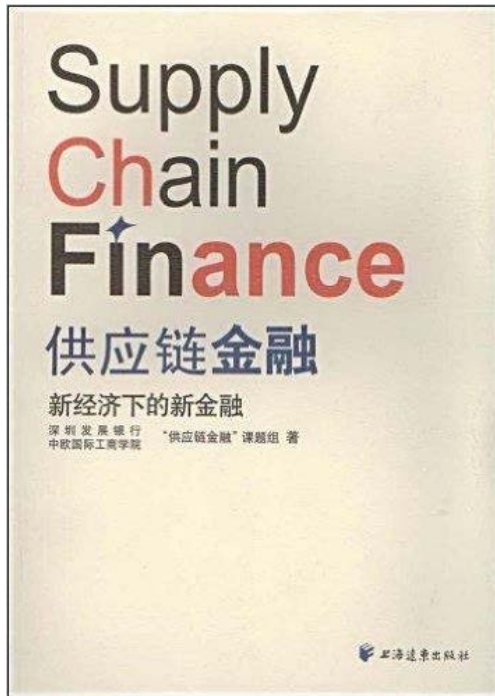


宜信
CreditEase

- E-commerce platform [Tradecraft](#) has partnered with China's largest peer-to-peer lender, [CreditEase](#), to offer *accounts receivables financing* to Chinese SMEs through an app on the Tradecraft platform.
- In a statement, both companies said CreditEase will work with Tradecraft to jointly develop solutions that “[enhance traditional supply chain finance services](#)”, with the aim of providing a “[unified, innovative, automated and on-demand online financial service](#).”

"The collaboration between CreditEase and Tradecraft will be extended from the electronic invoice to the upstream and downstream supply chain processes, creating a closer trade link for global sourcing and supplier interconnection."
Ning Tang, CEO of CreditEase

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- SCF Briefing, Supply Chain Finance Community.
- The Rise of FinTech in China, Redefining Financial Services, A Collaborative Report by DBS and EY, November 2016