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Comparative analysis of system financing mode in different capital constrained supply Chain

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ABSTRACT

There are certain dissimilarities in the operation process in different capital constrained supply chain, and this will produce different angles of effect on the financing process of SMEs. Supply chain financing mode takes the trade situation of all enterprises in the supply chain as the basis, and the credit index of the core enterprises as the key point in order to provide help for the financing process of SMEs in the supply chain. This research firstly combines the specific definition of supply chain financing mode as well as the main financing method for specific research, introducing two kinds of financing methods in the supply chain respectively. And discusses the financing mode of different capital constrained SMEs specifically. Secondly, the financing methods based on supply chain finance have been explored effectively in order to conduct effective construction of the mode structure. And after that the subjects providing the capital supply, payment and settlement services have been further explored, making the inner relationship between the enterprises and the banks in the supply chain financing mode effective clear. Finally, two aspects including supply chain finance and traditional financing mode ratio and combinatorial optimization of capital constrained supply chain have been studied concretely, and in which the superiority of supply chain financing mode has been fully embodied.

KEYWORDS

Capital constraint; Supply Chain; System financing mode; Comparative study.



INTRODUCTION

From the perspective of times development, the supply chain financing mode can promote the rapid development of SMEs effectively, and also provide an effective capital source for the development process of SMEs, so that it has stronger superiority than the traditional financing mode. This research discusses the topic mainly through the comparison and analysis of supply chain finance and traditional financing mode, so that making the research ideas and research structure scientific and reasonable, which has laid a solid theoretical foundation for the effective implementation of the future research.

THE OVERVIEW OF SUPPLY CHAIN FINANCING MODE

At present, from the angle of supply chain, enterprises in capital constrained supply chain solving the capital effectively can be done in two kinds of schemes, the first is the internal financing in enterprises, and another is effective financing outside the supply chain. The key point of conducting the first kind of financing lies in the accumulation and precipitation for a long time of the supply chain enterprise internal, in order to make enterprises conduct the relevant financing process themselves. And at the same time commercial credit can be used to achieve the purpose of internal financing among enterprises. The key point of the second external financing means lies in that the bank loan amount is larger, accounting for large proportion in the total number of enterprise finance, but of all enterprises in the current, the proportion of enterprises financing through bank loans is relatively large. However, in the enterprises there are some enterprises within the supply chain without fixed assets, and in that case, the issue of mortgage loans shall not be involved, so the enterprise capital source has become a more difficult problem^[1]. And enterprises in the process of innovation reform first puts forward the innovative solutions of supply chain finance, making the problem solved.

Supply Chain internal financing

The key point of this financing way is to carry out the process of financing in supply chain enterprise effectively through the subject of capital supply, which has two ways to reflect, and they are the financing process within the enterprise and financing process of each enterprises in supply chain.

Supply Chain external financing

The supply chain external financing is the financing service provided by organizations outside the supply chain including financial support, listed financing, venture capital, bank loans and so on. Although the above financing modes have the scale, they are also limited by some conditions. For example, the financial support mostly belongs to the disposable subsidy, aiming at high tech enterprises. While the subject of the venture capital market is venture enterprise, especially small and medium-sized high-tech enterprises which are newly-born and have the potential to grow, the main ways to invest is mainly disposable. As for listed financing, ordinary companies can't meet the listing requirements, and it also cannot solve the enterprise fund shortage problem in a short time for it lasting long^[2]. The purpose of financing on capital constrained supply chain is mainly to ensure the continuity of the production, supply and sale operating stage, therefore, the capital demand has the characteristics of short-term, continuity. To solve the short-term funding in capital constrained supply chain is still mainly rely on loan services of financial institutions.

Internal financing based on the capital constrained supply Chain

Enterprises through the years of after tax profit accumulation or the formation of intangible assets accumulation for effective extraction mainly include two parts, the remaining funds after a profit and profits not for distribution. And the enterprise's own profit after tax cannot fully allocate to investors, the surplus reserves need to carry on corresponding extraction process according to a certain proportion. After the profit allocation for investors, some profits not allocated shall be remained. There should be a part of surplus profits invested into reproduction after conducting enterprise welfare investment. As an important source of enterprise financing, this part of capital does not need to carry on the corresponding financial activities. Therefore, this kind of enterprise financing is relatively popular in the enterprise.

FINANCING BASED ON THE SUPPLY CHAIN FINANCE

The so called supply chain finance is effective analysis process through the transaction status of enterprises in the supply chain, in which the self liquidating trade finance credit model has been effectively used, and the core enterprise and the corresponding logistics supervision companies have been introduced effectively in order to provide corresponding comprehensive service process. And the mentioned supply chain has a wide range, including the production enterprise, supply enterprise, sales enterprise and so on. This is the supply chain in traditional definition and the main body framework of the supply chain finance is shown in Figure 1.

SUBJECTS THAT PROVIDE THE CAPITAL SUPPLY, PAYMENT AND SETTLEMENT SERVICES

The subjects mentioned in this section refer to financial institutions dominated by commercial quotes. However, in traditional financing mode, the relationship between the enterprise and the bank is only one on one, and the evaluation of enterprise credit is often within a single enterprise, and the evaluation process is mainly aimed at enterprises paying ability

and ability to repay loans. So the bank and the enterprises needing bank loans only have a kind of principal-agent relationship^[3]. However, in the supply chain finance mode, the enterprises and banks have the relationship of one to many (as shown in Figure 2), this makes the bank expand enterprise test range, and strength the cooperation relationship between banks and enterprises gradually, realizing the formation of strategic partnership between the banks and enterprises in supply chain. The liquidity of bank loans continues to strengthen under this mode, and the financial costs will continue to decrease, thus having a positive impact on the profits of commercial banks.

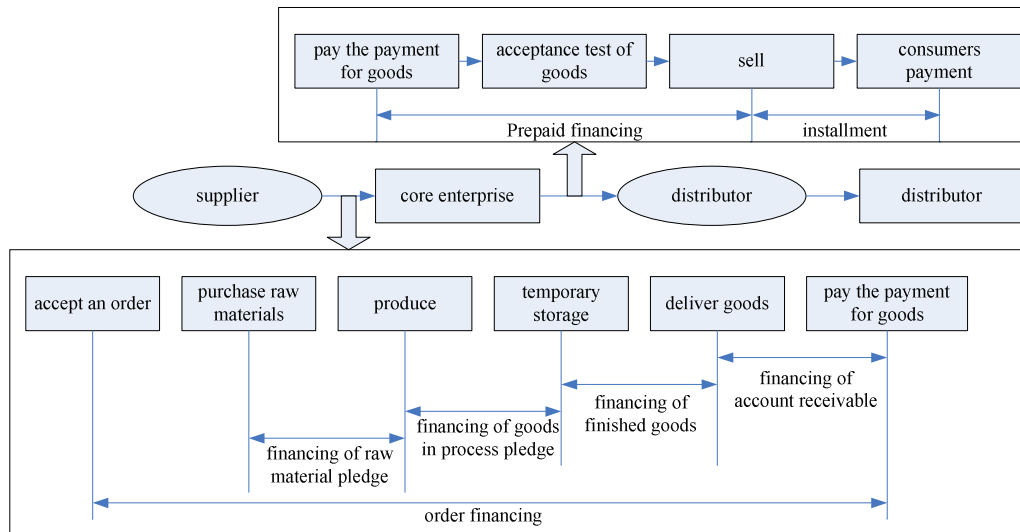


Figure 1 : The framework diagram of supply Chain

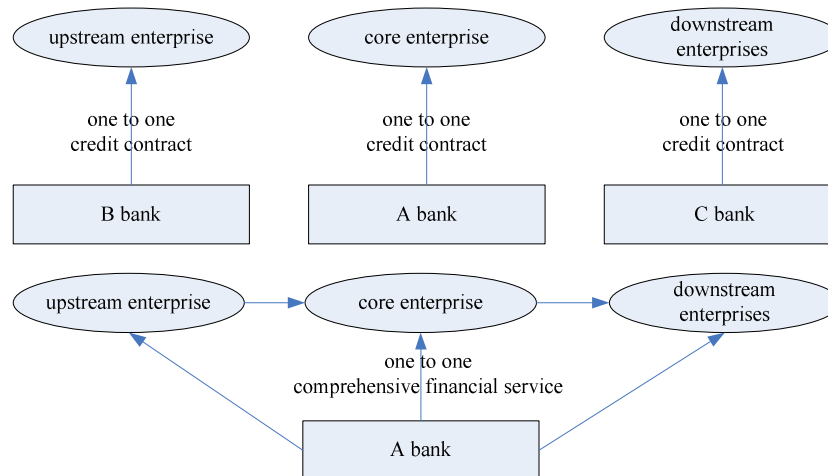


Figure 2 : Bank-enterprise relationship between the traditional credit mode and supply chain financing mode

THE COMPARISON BETWEEN SUPPLY CHAIN FINANCE AND TRADITIONAL FINANCIAL MODE

There is a big difference between supply chain financing and the traditional bank finance, reflecting in that the former on credit evaluation entry process is not completed by a business, in which the effective evaluation shall be carried out according to the importance of the enterprises in the supply chain. In this financial mode, the bank credits provided is under the background of practical trade, the condition of capital occupation and misappropriation has been strictly controlled, and the core enterprise credit has been effectively introduced, so as to effectively reduce enterprise credit risk in supply chain and even avoid. Under this financial mode, the form of enterprises repaying loans is initiative payment, that is to say, the profit obtained in the process of selling is directly used for the repayment of the loan. However, in which the enterprise that banks facing is not a single, all enterprises existing in the whole supply chain are included^[4]. However, in traditional financing mode, the relationship between the enterprise and the bank is only one on one, however in the supply chain finance mode, the enterprises and banks have the one-to-many relationship. However, in the bank that providing supply chain financial services, the banks has dominated the main body status in the whole service process, so that the enterprise credit costs can be reduced to a minimum, and the efficiency of financial services is also promoted in maximum. In supply chain system, small and medium enterprises also have certain positive role on the core enterprise, obtaining the preferential loans that cannot be acquired before effectively and making the profits of every node link in supply chain in maximum.

Supply chain finance to some extent has broke the defects existed in the traditional financing, and the credit static investigation way of the single enterprise has made breakthrough, transforming from a single enterprise risk management gradually to the whole supply chain management. The commercial banks is not only emphasizes the development scale of small and medium enterprises, and the number of fixed assets and other factors. The trade condition of enterprises in supply chain has become the focus of inspection gradually, and the importance of core enterprise in the whole supply chain has been highlighted to have a positive role on the improvement of the credit level of the small and medium-sized enterprise. In this financial model, the credit level of small and medium-sized enterprise has been carried out comprehensively evaluation, and the stability existing in the whole supply chain has been given full attention, the credit risk of small and medium enterprises has been measured on the basis of trade situation between enterprises, so the core value of the small and medium enterprises can be explored more effectively^[5]. Under the circumstances, the commercial banks will conduct corresponding program setting focusing on enterprise trade situation in order to provide strong guarantee for small and medium enterprises repayment degree. The comparison between finance mode and traditional financial mode can be fully embodied in Figure 3. And a represents internal relationship between the enterprise and the bank in the traditional financing mode, and b stands for the relation between the banks and the enterprise in supply chain finance mode.

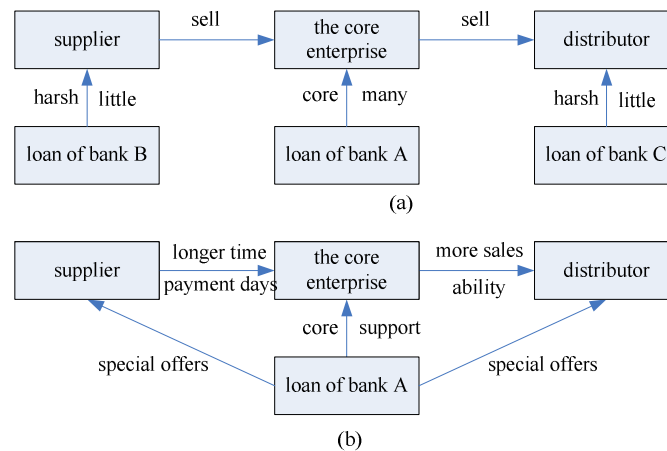


Figure 3 : The comparison between supply chain finance and traditional financial mode

In the traditional financing mode, however, small and medium enterprises requirements on financing mainly have the characteristics of little, urgency and frequency, and these small and medium enterprises cannot meet the requirements of standardization management in the management process, and have strong randomness in the process of business, leading the increase of loan defaults probability. And this will influence on the credit approval of the small and medium-sized enterprise, making the increase of examination and approval cost. However, the commercial Banks need to carry out a comprehensive investigation on small and medium enterprises, and conduct corresponding evaluation process of small and medium enterprise credit conditions on the basis of gained incomplete information. The issuance of the credit is often short-term credit. In the process of credit issuance, the principle of settling one after one has been adhered to. And long-term and large amount credit issuance for small and medium enterprises is rare. However, this has been avoided effectively in supply chain finance mode, making effectively supplement to the deficiency existing small and medium enterprises credit mode by commercial bank, the core enterprise in supply chain has been taken as the main body of measurement, and the enterprise transaction status of supply chain as the foundation. And the above has provided invisible guarantee for the credit application of small and medium enterprises^[6]. In the process, commercial banks do not need the long- time inspection process of enterprise for a long time, and just master the risk of credit issuance according to the trade situation. Meanwhile, the survey cost of commercial bank itself would be reduced gradually, and the existence of credit risk can also hit the bottom. The small and medium enterprises in supply chain can obtain bank financing that cannot get in traditional financing mode, and the above also provide effective capital source for the development of small and medium enterprises in supply chain, promoting its development process.

However, in the process of traditional financing, small and medium enterprises should provide the corresponding financing application to the bank, and then the loan risk of financing enterprises shall be carried out effectively assessment by the bank and relevant preventive measures shall also be adopted. And it requires enterprises applying for financing to provide other enterprise guarantee. This kind of enterprise financing mode pays too much attention to the enterprises development scale and the self confidence level of enterprise and other factors. However, the supply chain finance based on the true transaction of supply chain internal takes the profits of education on enterprise and the existing inventory as mortgage capital, thus providing financing services for some small and medium enterprises at the end of the supply chain, so that the financing cost can be reduced to the lowest point. This kind of financing way is based on transaction contract between enterprises, and it provides effective financing methods according to the profit status of products of enterprise needed to financing in the market. In this process, the bank concern is often reimbursement ability of the small and medium enterprise itself and the education condition, not merely focus on repayment risks of small and medium enterprises themselves. The core enterprise in supply chain has better credit strength, and thus long-term stability relationship between them and the bank can be formed,

and this can produce certain reverse role on study of the process of small and medium enterprises financing, increasing the credit rating of small and medium enterprises invisibly and reducing the risk degree of bank credit. Under these conditions, the bank and enterprises applying for financing has formed mutual restriction relationship. Enterprises at the end of the chain will enhance cooperation and communication process with core enterprise in order to set up and maintain their own credit image, guiding the small and medium enterprises to choose the method of repaying the loan on schedule.

Supply chain finance is a new kind of financial mode between enterprises and Banks, connecting the finance business small and medium enterprises together. According to the actual development situation of the supply chain, the possibilities of the supplier financing has been further investigated. And corresponding enterprise financing shall be given based on the actual situation of the whole supply chain, not merely determined according to enterprise development status^[7]. Core enterprises play a decisive role in the process. And in the process of financing, the payment ability of core enterprises has also considered. There are many comparisons between supply chain finance and the traditional financing way, and the specific process of comparison between the two modes can be seen from TABLE 1.

TABLE 1 : The comparison between traditional financial mode and supply Chain finance

Major differences	The traditional financing mode	Supply chain financing mode
The focus	The management situation of a single enterprise, pay attention to the static property report data	Dynamic pay attention to operating condition and stability of the whole supply chain and the payment ability of core enterprise
Financing object	Single enterprise that given credit	All node enterprises in the list of supply chain
Financing way	The credit of a single enterprise, internal credit mode only enjoyed by single enterprise	The credit of the whole supply chain, open credit mode shared by node enterprises
Secured method	Traditional ways of guarantee like real estate mortgage and guarantee company assurance	Adopt core enterprise credit mode, joint guarantee, chattel mortgage, credit enhancement
Relationship between banks and enterprises	Debtor-creditor relationship	Offer a package of financial products, to supply chain enterprise, and keep long-term cooperation partnership
The transaction of financing	According to the use of the loans, regardless of factors like transaction object and transaction amount	Give the financing amount according to the real deal, control the function of financing effectively

FINANCING PORTFOLIO OPTIMIZATION OF CAPITAL CONSTRAINED SUPPLY CHAIN

For the capital shortage of financing supplier, the financing solutions to this situation can be mainly divided into two types. The first one is to mortgage inventory within the warehouse, in order to apply for financing to the bank, realizing the financing process. The second is to carry out the receivable of downstream enterprise through the supply chain of their enterprise and the receivable account is taken as financing. The Suppliers in the process will receive two loans, making insufficient funds situation effective controlled and resolved, and the capital constraint problem of the supply chain can also be effectively resolved. For the providers at the front of the supply chain, prepaid account receivable financing process can be carried out through the way of raw materials procurement in order to purchase the raw materials more effectively. The specific financing process can be seen clearly in Figure 4.

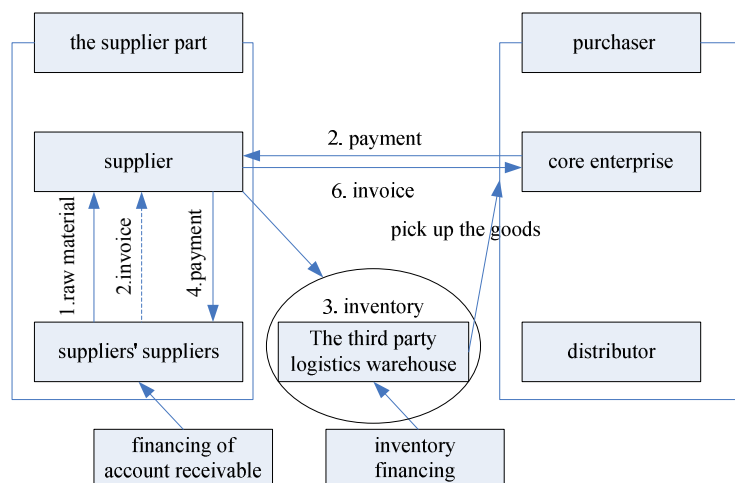


Figure 4 : Vendor financing program design

CONCLUSIONS

This research is the comparative analysis process of system financing mode aimed at different capital constrained supply chain. The comparison between supply chain finance and traditional financing mode and the overview of supply chain financing mode have been focused on. The specific advantages of system financing mode of supply chain can be reflected. And the study can give more effective evaluation on the positive role of the development of the small and medium enterprises.

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