ISSN 1816-6075 (Print), 1818-0523 (Online)
Journal of System and Management Sciences
Vol. 4 (2014) No. 2

Boosting SMEs with Better and Innovative Financing Services

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Abstract. Supply chain finance is a useful and important way for relieving the financial difficulties of small-to-medium sized enterprises (hereafter referred to as SMEs), since it takes inventory or some flow capital of the financing enterprises as pledge, breaks through the traditional mortgage model and relieves the urgent need of cash flow for loan enterprises. The modes of supply chain finance increase the option of financing methods and opportunities for SMEs and greatly reduce the risk of participants in the business. Along with the participation of more commercial banks as well as the appearance of more businesses, supply chain finance will get a broader development to meet the needs of SMEs and thus promote economic development in China.

Keywords: Supply chain finance, SMEs, Operations center.

1. Introduction

One of the main reasons of SMEs financing problems is that the loan conditions of commercial banks are too strict. In order to reduce the credit risk, China's commercial banks have established credit rating system, and only the customers of A, AA level and above can have access to obtain new loans. The banks have also generally raised the minimum capital conditions and loan conditions for their customers. However, the

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majority of SMEs is difficult to meet such high requirements and thus excluded from the banking credit system. In addition, China's state-owned commercial banks have been operated as administrative organization in a long run, focusing on the state's macroeconomic objectives, providing loans for the state-owned enterprises and are reluctant to grant loans for non-state-owned enterprises. This situation has changed in recent years, but still universal.

According to the traditional practice of bank credit, SMEs are considered as high-risk borrowers who need to pay higher costs. SMEs often obtained funds from the banks only through secured loans or mortgages, which have more complicated procedures, shorter terms and higher fees. Some guarantee institutions have tougher conditions than that of bank loans and even demand the counter-guarantees. It is estimated that the fees of handling a mortgage are generally around 0.5%-1%, and the average guarantee rates are around 1%-2%. These factors greatly increase the costs of funds and restrain the financing capacity of SMEs.

Seen from a deep insight, the problems of financing difficulties of SMEs not only affect themselves but also impose a limitation on the entire economic development. Due to large appearance of SMEs, China is gradually shaping a new organizational system of production based on the precise division of labor within industries, which have improved the production efficiency and reduced the cost of manufacturing. However, if the financial costs become too high, the competitive advantages of the new system compared to the traditional mode will be weakened and even lose. Therefore, how to change the modes of financing and reduce the financial cost of entire supply chain has become an important challenge to the new organizational system of production, and thus we can seek a solution for SMEs financing from the perspective of the entire supply chain.

2. Financing Difficulties of SMEs

SMEs, as a high efficiency economic group, plays an important role in promoting economic growth, increasing employment, innovating technologies and culturing entrepreneurial spirit, and they are also the best active part for improving market competition & rational resource distribution. In China, SMEs perform a great function for national economy & social development. Information shows that the quantity of SMEs in our country is about 43,000,000, 99% of total enterprises, and they create 60% of national economy and 50% of fiscal & tax revenue and provide 80% of employment posts. Therefore, accelerating healthy development of SMEs is of great importance to promote economic growth, increase fiscal & tax revenue, expand urban & rural employment and maintain social stability.

However, SMEs face many difficulties during development and one of them is financing difficulty. According to one piece of information of National Development and Innovation Committee, only 10% of these enterprises obtained bank loans, 5% got the local public subsidy, 1% was the targets of venture investors and 1% was listed, thus, so many enterprises fall into the business difficulty and are even bankrupted due to lack of funds. There are a lot of reasons of financing difficulty. One important reason is that their credit is low, so it is difficult to obtain the fiduciary loans of commercial banks. Mortgaged immovable asset is commonly less, so these enterprises cannot get the assurance of large-scale enterprises. Therefore, it is still very difficult for them to obtain financing services provided by banks under current circumstances. On the other hand, they have much movable estate.

For SMEs, real asset resource depletion and assurance with excess real asset dependence result in financing difficulty, but they have a large amount of idle movable estate. This contradiction leads to the financing difficulty of SMEs and the supply chain finance is just the new solution.

Supply chain finance is an innovation in the logistics and financial infrastructure, it extend financing from merchandise sales to the procurement and production stage on the basis of financing in the logistics. Supply chain financing models help to alleviate financing problem of SMEs in dealing with the core enterprise to a certain extent. This financing model allows the core enterprises to further reduce costs, improve efficiency, enhance market competitiveness and can solve the cash flow problems of upstream and downstream of SMEs, allows third-party logistics enterprises to secure customer resources, to expand the range of services ultimately improve service quality and efficiency of logistics enterprises, at the same time, it also allows commercial banks to expand the intermediate business income source, stable settlement deposits. Visibly, it allows multiple parties to maximize the benefits, and the formation of the credibility of the chain.

3. Mode of Operation of Supply Chain Finance

Combined with the characteristics of the cycle of SMEs' operations management, supply chain finance of commercial banks has the corresponding three models: the Chattel Mortgage modes, accounts receivable financing mode, confirmation warehouse financing model.

3.1. Accounts receivable financing model

In the accounts receivable financing mode, documentary evidence of the receivables of SMEs to the core large enterprises in the supply chain will be taken as pledge, the SMEs apply for short-term loans from commercial banks with a period not exceeding the aging of accounts receivable, then the banks will provide financing for SMEs in the supply chain. Simply put, it is behaviors apply for loans from financial institutions with unexpired receivables. In this mode, the core large enterprises debt enterprises play a role in counter-guarantee for SMEs financing as for its good credit strength as well as long-term stability of the credit relationship between banks. Once SMEs cannot repay the loan, it must bear the corresponding repayment obligations.

3.2. Chattel Mortgage mode

Commercial banks take the borrower's own goods as pledge to issue credit loans to the borrower in the mode. SMEs have their chattels such as inventory, warehouse receipts, merchandise certificate and etc. pledged to banks to obtain loans. Chattel mortgage mode change “dead” certificate of goods or rights to the “live” assets, accelerate the flow of real estate, ease the pressure of cash flow shortage of SMEs, address the lack of SME liquidity, improve the operational capability of SMEs.

3.3. Confirmation warehouse financing model

Confirmation warehouse financing model, a supply chain finance business based on the downstream and Right of taking delivery of goods is based on a supply chain finance business on upstream and downstream and merchandise delivery rights. The business is mainly carried out by the cooperation agreement signed by the manufacturers, distributors, warehouses and banks for particular business, bankers' acceptances is the main product and financial instrument in this mode. This business model realize the leverage procurement and supplier of bulk sales of financing corporate provide financing for small and medium enterprises in the supply chain, solute the financial predicament of its full purchases, so that the risk of bank loans greatly reduced effectively.

Financing model is different from the traditional mode of financing is a notable feature of the financial supply chain. Supply chain finance is not isolated to assess the financial condition and credit risk of individual enterprises, but focus on the research of its importance to the entire supply chain and its status, as well as past transactions with the core enterprise. It also different from the traditional supply chain finance mortgage of fixed assets, it take full advantage of the chattel property or rights generated in the production process of the supply chain as a guarantee, that is financing of inventories, prepayments, accounts receivable and other assets based on commodity trading, and extend the good credit capacity of core enterprise to the upstream and downstream SMEs in the supply chain. In addition, it emphasizes on self-liquidating credit repayment sources that are using the sales revenue directly for repayment of the credit. Supply chain finance financing model not only introduces the core enterprise of credit to have credit bundled, but also introduce the co-operation of the logistics enterprise, to assume regulatory responsibility of goods.

4. The Realistic Significance of Carrying on supply chain finance Business on dealing with SMEs

Supply chain finance business has brought a new source of profit for commercial bank, also promoted the development of warehousing logistics into a higher level. The important realistic significance of carrying on and popularizing logistics financing business for small and medium-sized enterprises that in the condition of financial dilemma is as follows:

4.1. Solve the problems of collateral deficit in SMEs finance and reduce the financing cost of small and medium-sized enterprises

Due to low credit level and lack of mortgageable fixed assets, it is difficult for SMEs to obtain the credit financing from banks. Through the logistics financial service, inventory and other current assets are mortgaged by SMEs with financing. In this way, the traditional fixed assets mortgage mode has been broken and at the same time the badly needed capital of the loan enterprises is relieved. Banks possess both the concrete guaranty and guarantee by logistics and warehouse enterprise with good reputation or goods management, so the loan risk will reduce greatly.

4.2. Reduce the information asymmetry phenomenon between SMEs and banks and upgrade the credit level of SMEs

In supply chain finance, third-party logistics enterprise authorized by financial institutions should learn dynamically about logistics information of SMEs in detail so as to help the bank to get precise internal information of SMEs timely and judge scientifically the profitability and loan repayment capacity of SMEs based on these information, thus ensuring the security and profitability of capital to reduce the information asymmetry phenomenon between SMEs and banks as well as be good to the establishment of credit system of SMEs to reduce the occurrence of “adverse selection”, “moral hazard” of SMEs during financing and enhance the enthusiasm of bank lending for SMEs.

4.3. Raise the fund utilization efficiency of the financial companies

In the process of manufacture and operation of minor enterprises, there are lots of raw materials, semi-finished products and finished products that occupy a lot of funds and increase capital cost of the enterprise. Supply chain finances allow the financial company to make a loan by mortgaging their raw materials and their products available at the market so as to solve the financing problems of the enterprise in realizing scale management and expansion, effectively activate the sedimentary money, raise the flow efficiency of the funds as well as raise the utilization rate of the enterprise capital.

5. Risk Prevention

5.1. To strengthen the financial risk management of the supply chain

Hosting banks organized supply chain finance should always pay attention to the operation of the supply chain, to grasp the weak point of the enterprise's internal supply chain, observing the trends of the external environment. Establish a set of early warning evaluation index system. Besides, the banks can establish credit model and database change the static assessment for dynamic assessment according to their management needs.

5.2. Select corporate chain group with good basic conditions

Continuously select good supply chain enterprises, mainly focus on the relatively complete industry chain in the steel, automobile, petrochemical, power, telecommunications industries with relatively complete industrial chain, good order, and the higher the level of cooperation with banks. To guide core enterprise to take the evaluation of the credit as an important criterion for the process of selecting the members of the enterprise，rigorous screen all franchisee enterprises.

5.3. Provide quality services mainly through core enterprises

Start with the core enterprises radiate outward, throughout the supply chain upstream and downstream enterprises in the design of products and services. To combine product innovation to provide personalized service, start from the customer needs, providing a range of innovative services such as management, marketing, and cash management, restructuring enterprise supply chain, supply chain financing, to the maximum extent possible to meet the individual needs of customers.

5.4. Construct supply chain security mechanisms

Closed operate among logistics, information flow and capital flow. Supply chain finance should choose a powerful logistics company and cooperate with it to achieve the purpose of controlling the goods rights with information for the supply chain, warehousing and logistics services provided by the logistics company. Banks can master operating information of the entire supply chain enterprises while financing and servicing the entire supply chain, this will reduce the asymmetry of information between enterprises and banks. In addition, by making various contracts to maintain cooperation relationship between equal stakeholders, mandatory implementation of the rules can be provide for supply chain operation. Besides, this measure can avoid friction as much as possible and improve the operational efficiency of the supply chain.

6. Conclusion

Financing difficulty of SMEs has become a common predicament for the development of SMEs. In one of the industry supply chain, SMEs always operate and cooperate around the core business, its cash flow gap is mainly produced in the accounts receivable, pay prepayments and inventory warehousing period, most of which are the liquidity and intangible assets. Supply chain finance is the new financial instruments designed for the SMEs lacking of fixed assets and possessing more current assets, which are very relevant in the context of the characteristics of SMEs' financing, this enhances the ability of SME credit and helps to resolve its financing difficulties. But supply chain finance is still in its infancy domestically, theoretical and practical research should be strengthened on its product development, organizational structure, risk control and other respects. For China's commercial banks and enterprises, supply chain finance brings a new business growth point for the former, while the latter can take full advantage of the financial innovation to better achieve their own financing needs.

7. Acknowledgement

I am grateful to the flowing individuals, whose help and support made possible the writing of this and previous editions: Sally Ma, Suzhou Logistics Center; Chong Hoo Tuan, Asian Institute of Supply Chain Management; Arthur Guo, Bank of China; Calvin Lin, The Geoger Washington University; Peng Lei, SIP Administrative Committee.

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