Proceedings of the 2nd International Conference on Management Research and Economic Development
DOI: 10.54254/2754-1169/93/20241098

Research of Third-Party Logistics Supply Chain Finance Model of SF Express

Ziyou Qian[1,a,*]

[1]*School of Adcote School(Shanghai), Shanghai, 201600, China*
a. qianziyou628@gmail.com
**corresponding author*

Abstract: As a new form of financing, supply chain financing has been well-received by many small and medium-sized companies because of its fast and efficient characteristics. Supply chain financing not only provides a new way to solve the financing difficulties and costly problems of upstream and downstream small and medium-sized enterprises in core companies, but also provides new development opportunities for financial institutions, core enterprises and third-party logistics companies in the supply chain. Since the development of supply chain financing, logistics companies have played an extremely important role, by providing logistics and transportation services for supply chain companies and comprehensive warehouse supervision services for the entire supply chain. This paper analyses the supply chain financing model of China's express transport company--SF Express Group, and compares it to United Parcel Service (UPS) to analyze its advantages and disadvantages. This paper also indicates the risks incurred by SF supply chain finance and proposes preventive measures against these risks. Through the analysis of the case, It can be seen that the establishment of the supply chain finance model for logistics companies, in addition to the requirements of the logistics company's own credit strength, distribution network, warehousing strength, and powerful information processing ability, is also quite critical for the entire company's transaction data, information, system docking, and monitoring system capabilities.

Keywords: Supply Chain Finance, Third-party Logistics, SF Express

1. Introduction

Small and medium-sized enterprises take a large portion of the total number of enterprises, but there is a severe problem they encounter in the development process, which is finance. However, they are extremely difficult to obtain financing from banks or capital markets, due to their high operating risks and low credit rating. Therefore, we need to prioritize their financing problem, in order to enhance their development potential [1]. At the same time logistics industries are becoming more and more capable of providing funds in supply chain finance. So supply chain finance provides a new way for small and medium-sized enterprises to finance, and it has advantages in low threshold, convenience and efficiency. The essence of supply chain finance is to use the core enterprises, which have a certain scale and high qualifications to provide credit support to both upstream and downstream enterprises. This will lead to controllable risks of the whole current supply chain, instead of unknown risks of traditional financing. Supply chain finance can integrate logistics, information and fund flow together,

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and analyze this information completely to reduce the risk to the largest extent. This study examines the financial operation modes and fundamental principles of two leading logistics enterprises, ShunFeng(SF) Express Group and foreign united logistics companies in the United States. This paper draws comparisons between the two cases to serve as a resource for the growth of the supply chain finance market in China.

2. Theoretical Overview of Supply Chain Finance

2.1. Definition of Supply Chain Finance

A range of trade finance services offered by financial institutions or businesses built on extensive electronic information systems are collectively referred to as supply chain finance [2]. Supply chain finance is a financial innovation that can help small and medium-sized businesses with their financing challenges in addition to addressing the high cost of supply chain financing brought on by global outsourcing operations and the bottleneck of supply network node capital flow.

2.2. Analysis of Typical Models of Supply Chain Finance

2.2.1. Logistics Provider Leading Model

The credit sale method is a widely used technique in most international trading. The seller will be under a lot of financial pressure because of the buyer's strict requirements, which require the seller to pay all or a portion of the payment upfront, then the buyer will settle the payment within a specific time frame following the arrival of the goods. As a result, there will be a strained relationship between buyers and sellers. However, by understanding the accurate information of mortgaged commodities, logistics firms can leverage their customer relationship and information advantages to provide short-term finance for credit-pressured clients in the supply chain financing. By working with upstream and downstream businesses to gather data on product flow and manage rights to goods, logistics companies will play a significant role in supply chain finance in this model by gathering, analyzing, and integrating information about the whole supply chain [2-3].

2.2.2. Model of Enterprise Group Collaboration

While the customer extends payment for the items, the selling enterprises collect financing interest and offer financing leasing, equipment leasing, and other services to the buyer. This shortens the buyer's operation preparation time and lessens the strain on the customer to make a one-time purchase of products payment. It also increases the seller's sales. According to the enterprise group cooperation model, the company has a robust department or subsidiary that, in addition to offering financial services, encourages growth in the primary business revenue. In this approach, buyers and sellers have more equal standing, and the enterprise group serves as both the core business and the source of finance in addition to taking a direct role in supply chain transactions [3].

This model operates by having the credit company, a subsidiary of the main enterprise, first sign the financial lease agreement with the buyer. After that, the credit company places the purchase order directly with the manufacturer and pays for it. Following production, the producer will ship the products straight to the customer. Lastly, the customer pays the credit company's rent on a regular basis using the money earned from the beginning of these goods' operations. Due to the fact that the core enterprise is also the manufacturer's upstream enterprise, this enables the buyer to get the goods ahead of time and begin operations. It can also increase the sales scale of both the core enterprise and the manufacturer.

2.2.3. Model of Commercial Bank Services

The opacity of small and medium-sized businesses' collateral frequently discourages banks, despite the fact that these businesses represent a sizable untapped market for banks. However, supply chain finance services offered by commercial banks can address this issue. Commercial banks have developed financing plans for buyers and sellers, as well as approval processes for transactions between the two parties within the same nation or across borders when it comes to financing supply chain financial services. This adaptable and practical service can better serve the requirements of various businesses [3]. Under this arrangement, commercial banks are able to provide the seller with before-shipment and after-shipment financing so that the seller can begin manufacturing ahead of schedule in addition to paying the buyer to ease the buyer's financial burden.

In this approach, the seller procedure entails the following: the supplier issues a bill of lading and invoice to the buyer after the buyer puts an order with the supplier, and the supplier then delivers the products in accordance with the specifications. Following receipt of the invoice and bill of lading, the seller is required to return the verified certificate and the acceptance bill issued by the commercial bank to the supplier. Suppliers demand payment from commercial banks using this information. The buyer must pay the commercial bank the financing amount owed on the due date once the commercial bank reviews the documents and registers the buyer's financing amount. The seller procedure entails the following: the business issues a purchase order to the supplier, who then sends a copy of the order to the commercial bank. The commercial bank then funds the supplier's before-shipping purchases in accordance with the terms of the financing agreement, enabling the supplier to make the goods and buy the raw materials. A copy of the invoice and bill of lading are submitted to the commercial bank by the supplier when they deliver the items to the business. Following confirmation, the bank gives the supplier post-shipment funding; it then records this financing and deletes the previous financing record. As agreed upon, the buyer will pay the commercial bank.

3. SF Supply Chain Finance Business Model

3.1. Warehousing Financing Model

This concept is predicated on SF’s robust information exchange network and storage capacity, SF owns and operates more than 1.1 million square meters of warehouse space, and it has operations and storage facilities for logistics and storage in over 80 cities [4]. SF signed logistics agreements to use SF Express when e-commerce sales are realized, and SF Express deployed goods nationwide in accordance with its own logistics network. SF also signed warehousing and storage agreements with major e-commerce platforms to provide their own warehousing centers to the e-commerce platforms for the storage of goods. These platforms can also rely on the storage of goods to SF Express financing loans. The e-commerce platform receives excellent express delivery services from SF Express, in addition, to saving money by leveraging SF's warehousing centre. Simultaneously, e-commerce can experience fewer financial challenges and risks thanks to the fund loan from SF Express. At the same time, using the close delivery criterion can help SF to cut logistics costs and the whole process can increase the stickiness between express delivery business and customers [5-6]. SF Express can also charge interest on borrowing, which boosts revenue.

3.2. Order Financing Model

Customers with a long-standing cooperative relationship and deep engagement with SF Express are the primary target audience for the order financing model. The primary procedure is as follows: after the downstream buyer makes a purchase, the purchase order is forwarded to the SF platform, which then pays the necessary funds and completes the purchase, SF Express also handles the

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logistics of transit and storage for the purchase process [3-6]. Throughout the process, SF Express not only offers financing to clients based on their credit score, but also manages the logistics and storage operations, strengthening client loyalty and fostering deeper collaboration.

3.3. Small Loan Model

Small loans will be offered by SF Express to businesses that demonstrate a high credit standing and a track record of cooperation. SF Express has a thorough evaluation of the transaction data, credit standing, and payback capacity of its partners thanks to its robust information collection network. Assign varying sums of modest loans to varying degrees of credit level. This increases client stickiness while generating interest costs on loans, in addition to partially resolving the issue of funding challenges faced by certain small and medium-sized enterprises.

4. USP Supply Chain Finance Model

4.1. Partnership between Walmart and UPS

Walmart, a well-known retailer, is a powerful customer and typically demands that Southeast Asian exporters and suppliers pay the entire amount upfront. The payment will be completed a period of time after the goods arrive. This has put significant financial strain on its upstream small and medium-sized businesses [3]. However, United Parcel Service(UPS)'s supply chain finance services guarantee that Walmart can keep extending the account period and allow its suppliers to use Walmart's credit to secure financing for accounts receivable at competitive interest rates, resolving this issue crafty.

4.2. The Characteristics of the Logistics Enterprise-Led Model of UPS

In order to supply logistics services for Walmart and its suppliers, UPS first secured multi-party agreements with them. UPS acts as a middleman to settle payments with tens of thousands of exporters in Southeast Asia on behalf of Walmart. To ensure the prompt operation of the UPS logistics agency's money, the United Parcel Service Credit Department(UPSC), promises that the exporter will receive payment for the items within two weeks after delivery. The export company will pay UPS the appropriate logistics service fees as well as certain financing charges, and undertake all freight business, including export customs clearance. Lastly, UPSC conducts a unified settlement with Walmart on behalf of UPS holding the goods.

The following three benefits are primarily responsible for UPSC's ability to play a significant part in UPS supply chain financial services: First, UPSC was the forerunner of the First International Bank of the United States, and because of its extensive background, it can offer financial services with the professionalism and risk management of more established financial institutions; Second, UPSC has sufficient capital to undertake large-scale financing operations because it is the financial division of UPS, the world’s best logistics company. Lastly, UPS can successfully manage credit risks and prevent information asymmetry as a direct participant in supply chain operations.

5. Differences between SF Express and UPS

There are three different primary areas that SF Express and UPS have. First off, UPS is the industry pioneer in supply chain finance in the US. It has been around for hundreds of years and is supported financially by a powerful capital business. It has a reasonably developed supply chain finance management and operating style [2]. SF Express began operating in the supply chain financing space in 2010, developing quickly and adopting a business strategy that was more in line with China's current stage of economic development. Second, the business scope of SF Group may be summed up as follows: financing, circulation, and logistics. It primarily consists of express, cold transport, and warehousing services from the standpoint of the logistics industry. Wealth management, integrated payment, and supply chain financial services are the primary offerings from the standpoint of the financial industry. In comparison, UPS's primary business may be broken down into four categories: retail services, supply chain finance financing services, supply chain solution services, and express services.UPS establishes several subsidiaries for various service objects so that they can work together to finish building the supply chain architecture. UPS Capital, which provides financial support for the entire supply chain financial operation, UPS Parcel Express, which supports the entire supply chain's cargo circulation, storage, and transportation, UPS Logistics, and UPS Consulting, which offer solutions for the entire supply chain management, were established in 2001 when UPS acquired the First International Bank of the United States. When comparing the two companies' business distribution, SF Express still has a lot of space for improvement, but UPS's supply chain financing services are more developed. SF Express mostly depends on self-financing sources for its funding needs, which results in high financing costs and restricted financing size. On the other hand, UPS changed its name to UPS Capital Company in order to finance the acquisition of the First International Bank of the United States in 2001, which allowed it to obtain a banking license. UPS Capital Company can raise capital on a wider scale and at a lesser cost because it has access to more finance sources. As a result, UPS is able to offer supply chain financial services with a more accommodating credit policy and a bigger credit line.

6. Conclusion

This paper mainly studies the Supply Chain Finance of third-party logistics and makes a comparison between SF Express and UPS by analyzing their operating modes respectively, then finding out the differences between them. It is concluded that in terms of Supply Chain Finance, UPS has developed more mature, while China’s SF Express Group has a relatively large space for development. This article has not discussed deeply the aspects to be improved for SF Express and given solutions. Therefore, future research should focus more on the existing problems of SF Express and areas that can be improved, and analyze which methods can effectively solve such phenomena.

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