Supply Chain Finance (II)
Supply Chain Finance Innovation in Manufacturing Industry
The Li & Fung Management Book Series

Winnie Lo
Management Theories and Business Models
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More and more manufacturing companies have made the strategic shifts from providing “products” to offering “service solutions” to their customers.

“Servitization” or “service manufacturing” is the major direction for the development of manufacturing industry.

The service-oriented manufacturing model is concerned with innovating an organization’s processes to create better mutual value through a shift from selling product to selling “product – service systems”.

Development of manufacturing industry
Servitization strategies in the manufacturing industry

1. **Business process-oriented service:**
The integration of a company’s business activities into the service supply chains or business processes of a customer in order to coordinate a multitude of similar cooperative or transactional activities to realize value addition for the customer.

2. **Customized technology service:**
This strategy requires companies to address the customers’ differentiated and dynamic demand flexibly, and provide technology or product solutions according to the specific needs of customers.

3. **Integrated service:**
It is the comprehensive integration of resources, capabilities, and knowledge by a company to fully satisfy the needs of its customers related to a specific event or problem.
3 models of supply chain finance in the manufacturing industry corresponding to the 3 types of servitization strategies

1. Traditional manufacturing and supply
   - Lenovo
   - SJet

2. Supply chain finance for the customization of technology and products
   - New hope Liuhe

3. Integrated supply chain finance
   - Process-oriented supply chain finance

* With case studies
Model 1: Process-oriented supply chain finance

- This supply chain finance model
  - focuses on process integration
  - aims to realize the successful implementation of virtual manufacturing
- SMEs with great development potential are excluded from virtual manufacturing networks due to shortfalls in financial resources
- By tackling the funding bottlenecks of SMEs, process-oriented industry finance continuously infuses new energies into the virtual manufacturing network and improves both effectiveness and efficiency

Virtual manufacturing
emphasizes a new production capability that is realized through the integration of business processes and resources
Shenzhen SJET Supply Chain Co., Ltd. (SJET)

**Founded in 2007,** a spin off from the import/export trade division of SJET Technology, which has established since 1995.

**Positioning:** from an import/export trade agent to an integrated supply chain service solutions provider.

**The 7th largest import/export enterprise in Shenzhen, in terms of total trade value (2014)**

**Core businesses:** Supply chain + Internet + Finance

**Financial data:**
- Sale volume grew by an annual rate of 60%.
- Exceed 40 billion RMB have been funded for SME within 5 years.

**Targeted industries:**
- IT products, electronic components, telecommunications products, FMCG, medical equipment, new energy products, and consumer electronics products.

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- IT products, electronic components, telecommunications products, FMCG, medical equipment, new energy products, and consumer electronics products.

**Offices in:**
- Beijing, Shanghai, Chongqing, Hong Kong, Shenzhen Futian Free Trade Zone and Qianhai.

**Work with:**
- >3,000 suppliers and >100 manufacturers.
Case: Virtual Manufacturing

SJET’s Client: Company A
- A leading global player in wireless communications technology products and services

**Headquarter:** Shanghai

**Branch offices:** Beijing, Shenzhen, Xi’an, Hong Kong, Japan, India, and Vietnam

**Employees:** > 3,000 (70% are R&D engineers)

**Markets:** Asia, Europe and America

Challenges facing Company A:
- High cost in organizing production and parts assembly in different markets
- Cash flow hold for prepayments of materials

SJET proposal:
An integrated virtual manufacturing financing solution for Company A (See Slide 8)

Results:
- Company A lowers its transaction cost and focus on product development and design
- Joint quality control with SJET helps ensure consistent product quality
- Company A overcomes the shortage of funds, achieves business growth and raises satisfaction of its downstream customers
**SJET’s virtual manufacturing financing solution**

1. Confirmation of technical parameters and signing the sales and purchase agreement
2. Reaching cooperation
3. Agreement
4. Placing the purchase orders, L/C
5. Specifying suppliers for key components
6. Payment and invoices
7. Supplying raw materials and parts
8. Paying the processing fees and issuing invoice
9. Joint quality control
10. Export distribution
11. Product payment
Model 2: Finance in the customization of technology and products

• In this model, the financial service provider leverages its own industry supply chain, in particular the established supply and distribution networks, to provide services targeting upstream suppliers and downstream customers

• For the financial service provider, this model brings the following benefits:
  – It is conducive to the developments of the industry supply chains
  – It promotes the effective integration of work flow, logistics flow, and funds flow
  – It enables better value creation of financial resources

• For the upstream and downstream partners, the financial service allows them to better focus on production and market expansion and lower the operating cost
Lenovo

Founded by Liu Chuanzhi in Beijing, named as Legend.

Legend officially renamed as Lenovo, and acquired IBM’s Personal Computing Division to become the 3rd largest personal computer company in the world.

Hit by the global financial crisis, and suffered a loss of USD 267 million

Became market leader in China for ten consecutive years.

Entered the list of Fortune 500s with business revenue of USD 16.8 billion

Unveiled the consumer business strategy to set foot in the global personal computer market.

On the list of Fortune 500s again

Purchased IBM’s x86 server division and Motorola Mobility. Lenovo is aggressively expanding its supplier and distributor financing business; supply chain finance accounts for 20% of Lenovo’s total revenue.

Lenovo’s market share climbed to a record high of 17.1%; for the first time, Lenovo became the champion in the global personal computer market.

1984

2005

FY2007

2009

FY2008

2011

2013

Present
Lenovo’s supply chain finance service

- 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
Model 3: Integrated supply chain finance

- This model combines the merits of the previous two supply chain finance models
  - It encompasses the entire manufacturing and operational processes
  - By incorporating the proprietary technology and products of the service providers and financial services, it stabilizes supply chain relationships

- In this model, the service provider plays the role of a network coordinator. It is both the platform provider of financial service and the risk manager.
New Hope Liuhe Group, NHL

Established in 1995, the NHL Group (formerly known as the Liuhe Group) was originally headquartered in Shandong Province.

In July 1995, the company owned only three small-scale feed mills.

By the end of 2005, the Liuhe Group has grown to become one of the top three players in China’s animal feed industry with sales revenue of over RMB 10 billion.

With an annual revenue exceeding RMB 20 billion, the Liuhe Group landed the no. 362 spot of China’s Top 500 Enterprises that same year.

By the end of 2008, the Liuhe Group was the largest supplier of poultry products in China, with more than 200 subsidiary companies nationwide and a total number of employees exceeding 40,000.

In 2008, the Liuhe Group’s sales revenue exceeded RMB 32 billion, and its sales volume of feeds and poultry output were over 7.4 million and 1 million tons, respectively.

In 2009, the company’s sales revenue climbed to over RMB 40 billion, and the sales volume of feeds reached 10.1 million tons.

In 2010, the Liuhe Group was acquired by the New Hope Group and the company was renamed the NHL Group.

In 2011, the production capacity of the NHL Group reached 25 million tons, and ranked first in China.
NHL Group’s integrated supply chain finance solution

Industrial background of poultry production

• Despite rapid growth in China’s broiler and duck meat consumption, development of the country’s poultry production has been lagging far behind

• Due to poor level of integration, different processes such as materials supply, production, processing, and distribution operating in silos are the industry norm

• Most of China’s poultry processing plants have rudimentary modes of operations, raising huge consumer concern about product quality and hygiene standards
NHL Group’s integrated supply chain finance solution (Cont’d)

- To tackle the challenges facing the poultry production, the NHL Group launched an integrated supply chain finance solution, targeting the industry chains of broiler and duck meat.

The NHL Group provides financing guarantees to farmers and collaborates with local inspection and quarantine departments, as well as commercial banks.

The NHL Group inks cooperation agreements with farmers who pass the credit reference checks.

The NHL Group, who provides the financing guarantees, is responsible for paying off the loan principal, interest, guarantee fees, liquated damages, and so forth, in the event of loan defaults.

The commercial banks offer financing to farmers to purchase different factor inputs.

Farmers must adhere to the operational requirements laid down by the NHL Group, and be subject to relevant hygiene and quarantine inspections.

After receiving the sales proceeds, the farmers repay their loans and pay the financing fees.

The broiler and duck meat is sold to meat processing enterprises and food chains designated by the NHL Group.
NHL Group’s integrated supply chain finance solution (Cont’d)

Results:

• The financing model removes the financing bottlenecks of farmers and helps secure the supply of necessary factor inputs

• The product sales channels by the NHL Group greatly secure farmers’ incomes, lowering the transaction cost in the production processes

• To the NHL Group, the model facilitates the sales of factor inputs, and ensures the stable supply of high-quality meat to its designated meat processing enterprises and international food chains, which is essential in building a safe and reliable poultry product supply chain
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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. Prof. Song has published over 60 papers in refereed conferences and journals including Asia-Pacific Journal of Management, Transportation Journal, Decision Sciences, International Journal of Operations and Production Management and Chinese Management Studies.
Contacts

Management Theories and Business Models

Winnie Lo
Research Manager
Tel: (852) 2300 2488
Email: winnelowil@fung1937.com

Fung Business Intelligence Centre

10/F, LiFung Tower,
888 Cheung Sha Wan Road,
Kowloon, Hong Kong

Tel: (852) 2300 2470
Fax: (852) 2635 1598

Email: fbicgroup@fung1937.com
http://www.fbicgroup.com/

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