

Supply Chain Finance: Generation and Growth of New Financing Approach

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Abstract

As a new financing approach, supply chain finance is growing very rapidly, which makes it significant to understand supply chain finance more profoundly. This paper emphasizes on the literature study of supply chain finance over a decade and summarizes the generation and development of supply chain finance in order to put theory into practice better. The growth phase of supply chain finance is further sub-divided into four categories: supply chain finance based on overall supply chain, financing solution and technical support for supply chain finance and supply chain perspective from logistics service providers; enabling the researchers to understand it better for further development of this new financing approach.

Keywords: Supply Chain Finance (SCF); Small and Medium Enterprises (SME) Financing; Inventory Finance; Supply Chain Risk Management; Supply Chain Finance Modeling

Introduction

In recent years, supply chain finance (supply chain finance) has emerged as a new business field, causing the business community and academia off-note. At present, supply chain finance, is one of the rapidly developing financial products globally; therefore, it is necessary to do its causes and theories generated by the current development for further solution. From the context of the supply chain to finance development, this paper focuses on literature study of supply chain finance. From the concept of supply chain finance is concerned, the concept should be defined entirely within the scope of a supply chain. Broadly speaking, the whole supply chain is facing process, application of integrated products and services, through information sharing, coordination and integration of real organizations and other methods of logistics, information flow, capital flow, thereby reducing the cost of operating capital and creating the value for the supply chain finance management system. In a narrow sense, it refers to the financial institution, third party rate companies, software vendors in the supply chain operation process available to customers payment, settlement, financing and technology solutions and services. Supply chain financial management includes not only the individual financial supply chain nodes and whole cash flow management of a supply chain, but also the entire supply chain companies financing activities, as well as financial service activities throughout the supply chain.

Hofmann (2005) believes that supply chain finance in logistics, supply chain management, is combined for financial intersection. Supply chain finance is a method that includes external service providers, by scoring planning, directing, controlling the flow of funds between organizations to work together to create value.

Hofmann systematic analysis of the supply chain financial architecture from the participants, cooperation, explains the functions of the supply chain, financial awareness, pointed out supply chain finance for banks and other financial institutions and opens new service area for logistics service providers.

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1- The Origination of Supply Chain Finance

Supply chain finance produce a profound social background, is the world's inevitable product for economic development. In 1980s, with the rise of the expansion in corporate globalization, many large companies to seek minimize their labor costs, the cost of raw materials and carrying outside the global enterprise package, which requires a global enterprise network management, the concept of supply chain came into being. But in the 20th century, entrepreneurs found out that global outsourcing leads to higher transportation costs, long time, bring cash flow bottlenecks and other issues arising from globalization offset the low-cost benefit; therefore, various companies began to seek the best financial supply chain management processing mode (financial supply chain management).

Aberdeen (2006) research shows that: when the competition is no longer a competition between individual companies but the entire supply chain competition, each terminal-terminal cost reduction method is worth exploring. Financial supply chain optimization has helped many companies to improve their entire supply chain competitiveness, which is also accompanied by a more advanced supply chain and finance practice by introduction of automated trading process.

Gelsomino and others (2016) gave the definition of SCF that reflect two noteworthy viewpoints: the “finance oriented” perspective – concentrated on here and now arrangements gave by money related organizations, tending to creditor liabilities and receivable – and the “supply chain oriented” perspective – and is centered around working capital streamlining as far as records payable, receivable, inventories, and now and then even on fixed asset financing. Sugirin (2009) detailed description of the financial and supply chain management area industry characteristics, noted that: the financial supply chain management has become increasingly important need. Because companies may face financial problems in the short and medium term, and financial supply chain management has increasingly been seen as a stable business off system approach. Such as financing and payments between large buyers and suppliers' conditions improve. The challenge banks and third-party service providers face the various needs of different customers from different industries. According to Wang (2016), supply chain finance (SCF) is based on its under remaining of the supply chain transaction structure and subtle elements of the exchange, through the control of a genuine material stream, business stream, data stream and capital stream with the center of the inventory network, gives liquidity to providers by utilizing their purchaser's higher credit rating to achieve value-added process. John Mathis and Cavinato (2010) findings show that many companies increasingly eager to explore the best practices in the management of global supply chain financing. Article refers to decentralized financial decisions resulted in low efficiency financing. The authors suggest the competitive supply chain five subsystems; and submitted for chain finance visualization and control the entire supply chain renovation step, he advocated financial transactions embedded in the supply chain, and each model step. Many scholars in the study of the supply chain in the past, too attentive to the implementation of logistics and information flow, but the lack of attention to cash flow, supply chain management should also pay attention to the financial aspects of cash flow from operating activities and the influences.

According to the recent study in 2015 by McKinsey & Company's “Supply Chain Finance (SCF) the Emergence of a New Competitive Landscape,” that supply chain finance (SCF) gets shockingly minimal senior administration consideration for a market that presents such vast and developing opportunities. Customarily commanded by banks, the market has all the more as of late been entered by FinTechs: expert money related innovation organizations that give stages and programming based administrations to help SCF operations. These challengers are changing how buyers and suppliers consider the market, upsetting occupant monetary frameworks and suppliers, and beginning to order a sizeable extent of significant worth pools. Achievement in this new condition will rely upon understanding what banks and FinTechs are putting forth, working out what client's esteem, and rapidly arranging—and following up on a proper reaction. Fellenz et al. (2009), also raised the lack of attention to the flow of funds, resulting in supply chain management ineffective, and then caused the liquidity problem, especially for the midstream and downstream businesses. Facing the urgency of the enterprise to optimize the financial management of the supply chain, the specialized financial services devoted to improving the efficiency of the whole supply chain are generated, that is, supply chain finance.

On the other hand, supply chain finance is also closely related to logistics finance. With the evolution of logistics to supply chain management, the focus of logistics and financial practice has also shifted from the focus on single point, part of the financial optimization to the entire supply chain, pay more attention to the supply chain real logistics, information flow and capital flow integration. Hu and Hu (2008) explains that supply chain finance is the logistics development to the supply chain stage after the high level of logistics and financial, is the supply chain for the current currency circulation and credit activities. As an important part of supply chain finance, supply chain financing services through the use of various financial instruments to achieve the supply chain in the accumulation and circulation of funds, the supply chain in the various enterprises as a whole.

2. The Growth of Supply Chain Finance Research

Current literature on supply chain finance is very limited, most of that is concentrated in the last five years. This section is further divided into four categories:

(i) Supply Chain Finance; Based on Whole Supply Chain

From a supply chain point of view, Hu and Huang (2009) clarified that the expanding globalization and outsourcing pattern has prompted less resources for the individuals in the supply chain. At that point, SCF, as an innovative financing arrangement, connects the bank and capital-obliged SME individuals in the supply chain and makes an incentive for the supply chain with capital limitations.

Fellenz et al. (2009) Explores the current status of the supply chain capital flows under the current global credit crunch: (1) the separation of the flow of goods and the flow of funds: the lack of a synchronized mechanism between the flow of goods and the flow of funds, the lack of attention to the flow of funds resulting in a supply chain management is invalid. (2) the lack of automatic supply chain mechanism: the lack of a buyer and supplier technology-based automated financial system, resulting in many areas of high cost; for example, the resulting goods in fact become a bad asset. The authors suggest the establishment of a global, common, operational, transparent, and diversified system. System automation and physical, financial supply chain merger is imperative. In addition, studies have shown that an open, Internet-based or mobile-based system may form the basis of a shared information system that requires greater information sharing between management information technology and supply chain partners. The current financial crisis may be an opportunity to fully change the original financial system and point out the future trend of supply chain finance: bank restructuring, joint, automation and standardization.

He et al. (2012) dissected the game behavior of multi-multi-participants in stock financing on account of imperfect data, and found that reward is more viable than discipline in such cases. Xu et al. (2011) talked about the requesting technique of SCF under the state of stochastic requests by methods for the news vendor model. Foreign supply chain finance is mostly for the core business and started through the core business financing optimization program to achieve its upstream and downstream enterprises and the entire supply chain efficiency. Xiang (2009) proposed a multi-decision mechanism for enterprise supply chain financing cooperation system. The enterprise supply chain financing cooperation system interacts with the environment including the bank, the buyer and the supplier, but the enterprise may lack the understanding of the environment, the environmental parameter and the system should be connected, the group decision-making way, the cooperative neural network, multi-agent and data-oriented service-oriented architecture to develop a multi-criteria decision-making method for enterprise supply chain financing cooperation systems.

Zhao and Liu (2011), on the basis of non-arbitrage method, proposed an optimized pricing method for LSPs which offer services for SMEs in inventory financing. Supply chain finance is an integrated business model which combines financial services and logistics services, that pricing model proposed by Zhao and Liu was used to explain the issues of SCF. Gupta and Dutta (2010) established a dynamic model of revenue and expenditure to explore the funding management between supply chain enterprises. This model assumes that no payment is made at a given time, and any idle funds can be used to obtain interest; the goal of the model is to pay all payments payable with the money received; the problem with the model is that the dynamic calculations complexity and non-intuitive, the loss of funds for income and expenditure is continuous and unpredictable; for ease of processing, the author develops an integer programming model to represent a static problem. Then, two dynamic heuristics generated by static problems are used to study. Sadlovska and Enslow (2006) studied the financial relationship with emerging market suppliers from the perspective of the global procurement of multinational corporations and the buyer in the production process.

It points out that the new strategy of financial supply chain optimization is to rethink the financial behavior of the suppliers to achieve the bottom line performance considering that suppliers are often more difficult to finance in the local, higher interest rates, the use of the overall advantages of the supply chain in the trade to provide financial facilities. In the applied analysis section, the literature presents new savings opportunities for supply chain finance: increasing the degree of payment automation and visibility to extend the payables period, using early payment discount procedures to reduce the cost of selling goods, providing multiple financing mode of accounts receivable, third-party inventory financing.

Pfohl and Gomm (2009) analyzed the role of capital flows in the supply chain and the impact of supply chain management on optimizing costs. The author developed a financial framework for supply chain management and established a mathematical model to explain financial activities throughout the supply chain, a model known as "supply chain finance." This mathematical model helps to better understand the extent to which financial supply chain management helps reduce capital costs. The basic idea of the model is that supply chain information can be used to reduce the risk of investment projects in the supply chain and thus reduce the capital costs of financing projects. The article shows that the cost of capital in the supply chain has been neglected. The supply chain financing framework includes the supply chain's assets, the actors and the levers: the framework of supply chain finance. The article pointed out that the future of supply chain finance research is a very valuable area, is the use of a variety of enterprise project data on the quantitative testing.

Supply chain finance helps companies inject liquidity and more effective ways to manage working capital into the global supply chain. From accounts receivable financing, invoice discounts to inventory financing, these are to improve the efficiency of the company's supply chain and reduce financial costs. However, while professionals in the business generally recognize that supply chain finance can maintain and improve the efficiency of the financial supply chain, there is still a lack of an example to guide the business community to develop supply chain finance practices. In a supply chain financial market survey in 2008, respondents' buyers and suppliers agreed that the lack of knowledge on how to apply supply chain finance is a key challenge in optimizing supply chain finance.

(ii) Financing Solutions for Supply Chain Finance

The current financial crisis makes it difficult for businesses, especially for small and medium-sized enterprises (SMEs), to get financing from banks to finance their future manufacturing activities and business development. In recent years, warehouse financing as an effective means for SMEs from large banks and large companies began to appear. Yin, Luo and Fei (2009) identify and analyze the risks of the entire warehouse financing process and give measures to assess these risks. Most of the research proportion is given to risk management theories in supply chain finance research which confirm the opinions made by some scholars that risk management is an important factor in SCF. Yi-Xue (2012) proposed a conceptual framework concerning the discern of the risk sources. He divided these into two categories: system risks (SC, macro-economy and industry) and non-system risks (credit, liquidity and operation). Chen et al. (2007) runs a sensitive analysis and found out that when valuing risk in stock financing, loan-to-value ratios are more sensitive than interest rates. This, all things considered, originates from the price risk and liquidity risk of the collateral. Busch (2008) survey shows that supply chain finance is a revolutionary financing program. Its emergence, greatly improving the company's interest in the supply chain system. Deferred accounts receivable, prepaid accounts, inventories, etc. are wasted in inefficient operations. The flexibility and ease of implementation of supply chain finance often complement the shortcomings of existing receivables and coping schemes. Supply Chain Finance Mode of Operation: Normally, the supplier sells the goods to the buyer according to the terms of trade, such as 30 days. In the traditional business model, the supplier sometimes waits at least 30 days to receive the money, and the buyer may unilaterally extend his payment. Then during this period, the supplier can finance receivables through securitization, asset-backed securities, factoring or other mechanisms. The benefit of this supplier is that suppliers can determine their cash flow, improve their cash forecasting capabilities, and eliminate credit risk.

XU and Wang (2009) also introduced the concept of supply chain financial model based on accounts receivable, and proposed a mathematical model for calculating the loan amount, loan term, pledge rate and loan interest rate.

This model is mainly affected by three factors: the type of accounts receivable, the core business credit and the core business operation. Based on the detailed analysis of these factors, this paper presents a simple calculation model suitable for the core enterprises and suppliers with long - term good cooperation. This model can provide financial support for small and medium - sized enterprises and effectively control the risks.

In practice, the impact of the financial crisis so that the core business is also facing great pressure, so the banks need to carefully analyze each receivable, and gradually establish a scientific credit flow mechanism to improve credit efficiency and reduce risk.

Cachon and Zipkin (1999) studied the inventory policy of competition and cooperation in a two-stage supply chain. The so-called two-stage supply chain, that is, only consider suppliers and retailers, the article assumes that the demand is random, the transport time is fixed, each stage to calculate the cost of inventory holding. Consider two games, in each of these two stages of the game can choose the corresponding inventory strategy to reduce inventory costs. How companies track their inventory levels are different (one game focuses on the overall inventory and the other focuses on the inventory of a single firm). Comparing the inventory policy selected under the competition with the inventory policy selected under the collaboration will find that competition reduces efficiency. Using a simple linear transfer to get the Nash Equilibrium, you can get the best solution for the system. The proceeds of the collaboration depend on the situation: in some cases, the intensification of competition only increases the cost, but in some cases the cost increase is huge. Then, if we are concerned with the overall system performance, we should adopt a strategy to reduce the total cost; that is, there is a Nash equilibrium to minimize the overall cost, but each participant has the incentive to break the agreement to reduce their costs.

Tsai(2008) constructs a model of cash supply risk associated with the supply chain in an entity, which is measured by the standard deviation of cash outflows, inflows and net cash flows at each stage within the program. The goal is to more clearly illustrate how some of the common methods of improving the cash conversion cycle (eg, how to provide advance payment discounts) can prevent cash flow risk. The article suggests that the use of receivables as the standard to issue asset-backed securities approach, shorten the cash conversion cycle, reduce the risk of cash inflows. This method is particularly applicable to the financial constraints, financing the high cost of small vendors.

(iii) Technical Support in Supply chain finance

Supply chain finance can effectively reduce the cost of the entire supply chain, improve efficiency, largely depends on the development and application of information technology. The establishment of an information sharing mechanism and an automated, transparent supply chain financial system is a developmental need. Fairchild(2005) argues that as a key financing and financial information element in the supply chain, financial institutions are also facing rapidly changing markets, global competition, shortening of technological innovation cycles, global information availability, and dramatic changes in cultural, social and political environments. In this dynamic environment, whether computer manipulation or artificial intermediaries, need to be combined and coordinated, so that financial institutions and supply chain decision-making is effective, and is fully aware of the information. The article presents a smart matching method as a mechanism for communication and automatic decision making. It includes the ability to link financial matching activities with other supply chain activities, drive the simplification of business processes to reduce costs, and reveal the growth horizons of financial institutions in the Internet age. Through the intelligent matching program, at the same time through industry standards and collaborative processes, the operating mechanism and business operations need to integrate, so that the entire supply chain information flow transparent.

Xiang (2009) proposed the construction of a context-aware data mining technology to support decision-making based on the supply chain financial cooperation system. Scenario-aware data mining is an application that identifies and analyzes different contexts that can take action by identifying unknown factors to improve the effectiveness of decision making. The environment mentioned in this article refers to the environment of the banks, buyers and suppliers, the supply chain financial enterprise system and its interaction. However, the supply chain financial system is often unable to understand its environment effectively. Therefore, the author proposes scene-aware data mining technology, which introduces environmental parameters into the whole supply chain finance to improve the accuracy of decision-making. Sadlovska and Enslow (2006) focus on how to work with supply chain partners to build a competitive advantage by increasing the degree of automation of the payment and financing business from the perspective of the supply chain financial technology platform. The effective integration of material flow, capital flow and information flow in the supply chain is the proper meaning of modern supply chain management.

Research shows that supply chain finance technology leading companies, the use of supply chain financial technology is gaining a competitive advantage. Supply chain financial technology helps consumers, sellers, financial institutions and other parties to achieve payment, exchange of relevant documents and information exchange, support to improve the participation of the parties involved in the visibility and workflow, but also access to supply chain members or the credit provided by the participating financial institution.

Aberdeen (2008) survey results show that the automated financing process between suppliers and customers can save millions of dollars in expenses and bring about a significant increase in profit margins. However, hundreds of companies participated in Aberdeen's supply chain finance research in 2006 were dissatisfied with the automation level of their supply chain finance. More than 50% of respondents said they had new investments in supply chain finance at the end of 2007. The study also analyzes the types and characteristics of available supply chain financial technologies.

(iv) Supply Chain Finance from the Perspective of Logistics Service Providers

Logistics is an important part of supply chain finance, logistics and financial services such as warehouse receipts, pledge financing also exists from a long time. As the supply chain era, logistics finance must be in the entire supply chain operation, so the inventory pledge financing and accounts receivable financing, prepayment financing and other forms of financing, and even to settlement, insurance and other financial activities organic combined to ensure that the logistics in the entire supply chain on the seamless operation. Which also requires logistics enterprises to participate in the depth of logistics and financial business, communication between banks and enterprises. Hofmann (2005) looks at the importance of inventory financing from the perspective of logistics service providers. As the production or retail business is usually faced with the supply chain of goods and cash flow of time and space separation. On the one hand the invoice does not have to be issued at the time of delivery; on the other hand, the management of accounts receivable is usually allowed to pay within a certain period of time. This results in a: the seller's business needs funds to fill the gap. The consignor in the supply chain needs a high level of delivery service to meet customer needs in a short period of time. This means that suppliers want to hold a higher level of inventory or take a fast and flexible way of transport, but the high level of inventory caused by capital bundling costs are too high. The dilemma of different roles in the supply chain has led to strong demand for integrated logistics services and financial services. As a result, professional logistics companies can seize this opportunity to expand their traditional services: transportation, handling, storage and the corresponding additional financing services.

Peng et al. (2009) discuss the financing and financing of the transportation hub based on the logistics finance in the supply chain system. They analyze the complicated data and problems in the financing process, and also analyzed the transportation hub in the supply chain system by using the quantitative analysis dynamic model to identify warehousing financing issues, put forward the solution. In another article, they argue that logistics financing management in the supply chain system has an integrated function that provides resource sharing and cross-organizational fractal information. Its rapid chain reaction characteristics, adapted to the supply chain system in the logistics of the timeliness. Logistics financing management of the classification system synergies, any one of the changes in the unit will affect the effectiveness of the entire logistics financing management system. In the article, they point out that logistics financing management is a complex open system for management and control, and its field has long gone beyond the boundaries of the enterprise, the virtual organization based on the nodes of the logistics process, with multi-level, self- similarity, completeness, openness, and nonlinear dynamics. Supply chain logistics and commercial bank financing can improve the efficiency of the entire supply chain, access to capital appreciation and financing to maximize. As a promising prospect of financial innovation model - pledge and factoring financing, changed the commercial banks alone inventory financing or factoring financing model. The participation of commercial banks enhances the effectiveness of commercial banks and supply chain systems.

Poe (1998) describes an important realistic model in the logistics finance business i.e. asset-based financing, which states that inventory and accounts receivable are primarily collateral for asset-based financing operations, and all wholesale merchants, retailers and distributors are the object of financing considerations. In the logistics of financial business risk monitoring procedures and operational measures; Wright (1998) pointed out that the inventory-based logistics and financial business, the valuation of inventory and strict supervision is extremely important.

He argues that in inventory-based borrowing it is difficult to make an accurate estimate of the value of the final realization of the inventory, since the value of the pre-assessment of the inventory may not be achieved for a number of reasons.

These reasons include the control of borrowing firms, changing market conditions, intense competition and rapid development of technology. The author believes that the tight monitoring of inventory requires a lot of cost and the difficulty of monitoring is also large. Therefore, it is suggested that an experienced and powerful third party should be evaluated and supervised. This will provide strong support for the effective participation of logistics enterprises in inventory financing.

With regard to the control of risk in financing, Barsky and Catanach (2005) argue that commercial finance under logistics is different from traditional credit, noting that even managing and controlling the simplest commercial financing business is quite complex and cumbersome. In practice, the business control should be changed from the risk control concept based on the subject to the risk management concept based on the process control. The paper also establishes a conceptual model of risk analysis for financing business. This model divides business risk into five categories: business process risk, environmental risk, information technology risk, human resource risk and underlying structural risk. Among them, the business process risk is the core of the risk analysis model, the other four risks are affected by the business process and affect the financing business. This model has a revelation to logistics finance and can provide a comprehensive, effective and practical way for logistics finance financiers to analyze and manage related businesses.

Conclusion

In short, the development of supply chain finance theory is combined with practice. It can be seen from the above literature, the future development of supply chain finance will be accompanied by the development of Internet and IT technology, the development trend is: open, visualization, transparency, automation, information sharing. Atkinson (2008) believes that the most critical of these is the access to the knowledge needed for supply chain finance, the integration of accounts receivable and inventory, technology as a catalyst, and the use of financial options for globalization.

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