

Analysis of Purchasing Executive Business Based on Ecological System Views

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Abstract. Financing has been a big obstacle hindering the development of enterprises. As an important developing direction of logistics finance, procurement execution model is also an important way to solve the financing problems of enterprises. From the perspective of ecological system and coordinative development, this paper describes the procurement execution business, which introduces logistics enterprises into ecological system to achieve a balanced development of this ecological system and a win-win development result for the all parties involved.

1. Introduction

Wenzhou has the most prosperous private enterprises in China. In 2011, many Wenzhou local enterprises got broken with the owners of those enterprises running away, and this news drew widely public attention in China. One case is that the chairman of Zhejiang Xintai Glasses Company Hu Fulin disappeared in Sep. 20th, 2011, and later was proved that he escaped due to heavy debt and broken cash flow of his company. It is said that Hu Fulin was in 2 billion debts, including 1.2 billion folk usuries with 20 million interests each month. There were nine Wenzhou enterprisers escaped in a day. Furthermore, that was only the beginning of entrepreneurs escaping, and it seemed going worse and would not end very soon. In other cities in China, such problems occurred as well, which is a disharmony against the rapid development of private economy in China.

The common traits in those escaping issues are super heavy debt and broken cash flow. Most of those enterprises still had production ability, and the only problem of them was insufficient capital. Therefore, they might pull through with appropriate financing. However, under the pressure of risk control, banks did not lend to those enterprises, and even took money back from those enterprises, which pushed the entrepreneurs escape finally.

Banks were also in severe condition. In the end of Jun 2011, the non-performing loan ratio of Wenzhou banks was 0.37%, the lowest in China. Later in Sep, it came informal financial risk, and many enterprises got capital chain breaks, leading to the improvement of non-performing loan ratio. Up to Apr 2015, the non-performing loan ratio in Wenzhou banks increased into 4.69%. The non-performing loan ratio increased 12 times rapidly during past three years.

As the most important parties in economy, enterprises and banks shares common interest in developing economy environment. Therefore, activities of each party will influence the whole community. Banks chose to get money back when enterprises are in a trouble will lead to enterprises capital chain rupture. Meanwhile, the break of enterprises capital chain feedback to banks, making it difficult to obtain loans from enterprises, which leads to increase of non-performing loan ratio, and decrease of business. In this condition, banks have to get loan back from enterprises to maintain fund security, which creates an endless loop in this industry. To solve this problem, the root reason of this problem must be found.

The reason why banks refuse to offer loan, is for risk controlling. For a bank, controlling the risk is certainly not a fault, but the problem is that the loans banks lend to companies do not have effective supervision. Only enterprises credit can be rely on as a standard of loan security which is so lacked by

such companies like Zhejiang Xintai Glasses Company. To solve problems of lacking credit, logistics finance may help in it.

In manufacturing enterprises, stocks take a huge percentage of enterprises' capital. Advantages of stocks include continuing productivity and positive scale effect. However, it also brings trouble to enterprises, and the largest one is occupying of companies' capital. Normally, companies' stocks will take 30% of total capital, and this ratio will be higher in manufacturing companies. Higher level of stocks brings higher interests for enterprises, especially in automobile sales industry, and interest cost may even be more than 30% of total cost for some distributors.

Logistics finance is a combination of logistics and finance, which is under logistics supervision, to improve enterprises financing credit. Therefore, the development of logistics finance provides a reliable financing method for enterprises, and remits credit problem of financing enterprises, which providing sufficient cash flow for companies' on-going development, and also reducing the loan risk of banks. Logistics financing includes Procurement Execution, Distribute Execution, Confirming Storage, Pledge by Warehouse Receipts and other operation business. This paper is going to introduce the important operation model: Procurement execution operation model.

Procurement execution is a triple agreement signed by purchaser with financing needs, financing institution and logistics enterprise. According to this agreement, the bank extends credits to the logistics company directly, who purchases goods for purchaser and offer Procurement execution related storage, transport, supervision and payment services. The bank instructs logistics enterprise to deliver goods according to financing company's repayment. In Procurement execution business, the logistics company takes the ownership of goods, so it is obligated for banks loans [1,2].

The reason why Procurement execution can help banks and enterprises in trouble is that it introduces a third party to increase enterprises credit level and balance business the ecological system. Following chapters will go from ecological system side to analysis how this ecosystem collaboratively operates with Procurement execution business.

2. Innovation in Business Ecosystem Collaboration

Ecosystem is a natural system with various kinds of biology and inorganic environment interacted to each other in a certain time and space through materials circulation and energy flow. Moore 1993 put forward the concept of business ecosystem based on ecosystem view. He used natural ecosystem concept to describe enterprises' activities in nowadays marketing, and in his point of view, enterprise is not isolated operation entity, but a member of business ecosystem. Therefore, in the background of business ecosystem, enterprises should not go after defeating competitors blindly, and they should get evolution with competitors and the whole business ecosystem [4].

Business ecosystem is a value network composed with multiple value chain, so enterprise collaboration based on value chain is the foundation of whole ecosystem inside collaboration. Enterprises among each point of ecosystem value train optimize their inside value train as well as achieve resource sharing, management unification, cash complementation and rational flow of personnel outside themselves, upstream and downstream, to give full play to value chain and collaboration effect in entire business ecosystem [5].

From meaning side, operation value of business ecosystem finally can be explained by value of joint enterprises and joint customers inside ecosystem, which means cooperation and collaboration between joints will create a higher value than simply get sum of the value created by each joints. Therefore, business ecosystem as a competition and cooperation system, should base on collaboration of upstream and downstream enterprises, including resources, management, knowledge, fund and personnel collaboration, to achieve collaboration between enterprises in business ecosystem to create higher value and get the win-win results [5].

3. Application of Ecosystem Theory in Procurement Execution

Procurement execution business ecosystem is consisted by all procurement execution business participants and outside environment. In procurement execution business ecosystem, ecosystem is the sum of legal environment, institutional environment and technical environment that procurement execution relies on. Ecological community is a sum of directly related and indirectly related entities in procurement execution business, such as financing enterprises, suppliers, the third-part logistics enterprises and financing institutions.

Financing enterprise is the inherent subject of supply chain, and also demand raiser of supply chain financing. Generally, most of financing enterprises are middle and small-sized enterprises lacking of capital. Supplier is also an inherent subject of supply chain, with a wish of pay-on-delivery in delivery process. Logistics enterprise is the key party in procurement execution business, offering general storage and transportation services, and also is delegated to order and finance. Financing institution refers to the bank normally, who focus on loan safety, and wishes to enlarge business. In some condition, a logistics enterprise with sufficient cash flow can finish procurement execution independently, without financial financing. The procurement execution business process model is built in following Figure 1.

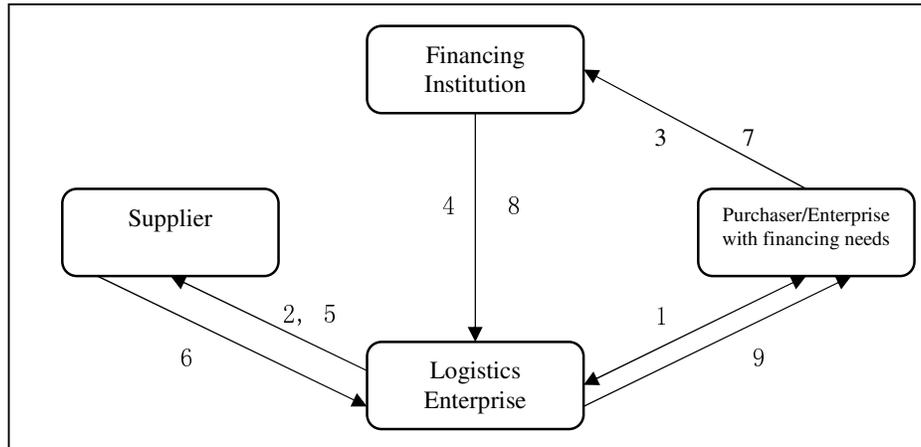


Figure 1. Procurement Execution Business Process Model.

- (1) The purchaser signs procurement execution agreement with the logistics enterprise;
- (2) The logistics enterprise signs procurement agreement with the supplier;
- (3) The purchaser applies for financing from the financing institution;
- (4) The financing institution offers a loan to the logistics enterprise;
- (5) The logistics enterprise pays to supplier by using the loan;
- (6) The supplier offers goods according to the order;
- (7) The purchaser returns a certain amount of the loan;
- (8) The financing institution instructs the logistics enterprise to deliver the goods;
- (9) The logistics enterprise delivers the goods to the purchaser.

4. Benefits of Procurement Execution to All Parties

Procurement execution business ecosystem as a whole operation system will benefit to each party in this system if they work with coordination effect. Next part is going to introduce the key benefit coordination of procurement execution business ecosystem brings to financing institutions, financing enterprises and logistics enterprises.

4.1 To financing institution

(1) Transferring the risk. In procurement execution business, purchasing of order is issued by logistics enterprises, and they have the ownership of goods, which controls the contract breaking risk effectively. Meanwhile, banks extend enterprises credit through logistics enterprises indirectly, so logistics enterprises own the reimburse obligation to banks, which guarantees the loan safety for banks.

(2) Simplifying the loaning process. In traditional debt relationship, credit evaluation as an important method for banks to control risk, can help to protect banks from nonperformance effectively, but it increases the loan cost of banks and creates complex processes at the same time. However, in procurement execution business, banks extend credit indirectly through logistics enterprises, transferring the risk to logistics enterprises, to simplify loaning process. Credit evaluation is taken by logistics enterprises which reduces the cost of banks.

(3) Expanding business. In traditional loaning process, credit is the decisive factor for banks to decide whether release the loan to a company. Therefore, most middle and small-sized companies with low credit level are excluded by banks. In procurement execution business, due to effective risk controlling, the credit level of enterprises will no longer be the most important factor to banks' decision. Consequently, procurement execution business expands middle and small-sized companies market with more customers for banks.

4.2 To financing enterprise

(1) Increasing financing success rate. In traditional financing model, banks are strict in enterprises credit level, so middle and small-sized enterprises without credit support can hardly get a loan from banks. However, in procurement execution business, banks has lower request in enterprises credit level. At the same time, companies do not need to provide available pledged goods, so it increases the loan success rate for small enterprises.

(2) Saving stocks and cash flow. In delivery-after-payment order model, purchasers need to pay off the loan to get goods, so the large quantity of order will take a great amount of capital. In procurement execution business model, enterprises only need to pay a certain number of cash, and logistics enterprises will purchase goods from suppliers using cash bank offered through financing. This model offers a way to purchasers to get goods at any time by paying a part of money, which saves enterprises' stocks and capital. Meanwhile, logistics enterprises will offer efficient and convenient supply chain services to save purchasers' stocks as well.

(3) Getting volume discounts. An enterprise will be limited by cash flow and stocks in purchasing behaviors, so they can hardly get a batch price from a vendor. In procurement execution business, banks offer logistics companies sufficient fund, and specialized warehouse of logistics enterprises can break the understocks limitation at the same time to get batch discounts from vendors and reduce purchase cost to achieve a win-win result to all supply chain entities.

(4) Getting goods as request for lean production. In traditional order business, purchasers need to take all goods at one time. With a large quantity of purchase order, it will take long time to consume the stocks, which causes an inventory backlog, and occupies a large number of cash flow for companies. While in procurement execution business, logistics enterprises can pay minimum cash to get production goods according to production plan to achieve lean production.

(5) Dispersing the finance stress by purchasing once and paying separately. In traditional order business, suppliers will encourage purchasers to order more by offering some preferential price for large orders. As for purchasers, they order a large quantity of goods for batch purchase preferential price, which occupies a large amount of operation capital, and causes owning a large number of stocks. In procurement execution business, enterprises need to pay some cash deposit to banks to get loan for purchasing, and get a favorable batch price with minimum cash. Therefore, they can use sales income to pay for the loan, and optimize capital chain.

4.3 To logistics enterprise

(1) Expanding customers and business range and increasing profits. Because of low admittance standard of procurement execution industry, logistics enterprises can develop a large quantity of small enterprises with low credit level as their customers. In intrinsic business model, businesses of logistics enterprises are only supervision of pledge, storage of goods, and transportation, and they are in subordinate position in supply chain, lacking of core competitiveness. With the development of procurement execution business, logistics enterprises now get involved in purchasing, financing and other new businesses field. Moreover, original pledge, storage and transportation businesses have lower additional value and lower profits, while with procurement execution business, logistics enterprises are uplifted as business core with more profits and add value.

(2) Strengthening control on supply chain. In procurement execution business, logistics enterprises as the key of supply chain, connected with banks, purchasers and suppliers helping procurement exertion process together, strengthens the control on supply chain. Especially in uniform credit model, logistics enterprises have more powerful decision-making rights to carry out credit analysis and extension independently, which strengthen their own control on supply chain.

(3) Getting ownership and enhancing supervision. In impawning supervision logistics finance business model, logistics companies help to supervise pledge for banks, while in procurement execution business, logistics enterprises owns reimburse obligation, so they have to improve supervision ability and with the ownership of goods, logistics enterprises can dispose the goods in time to return the loan to banks for nonperformance companies.

(4) Quantity discount with price spread. With a large quantity of customers, logistics enterprises can combine customer needs for quantity advantages, negotiate with suppliers, and get price spread profits through difference of purchase price and sales price.

Summary

From ecosystem side to understand procurement execution business, that complex enterprises relationship in supply chain can be learnt more comprehensively and systematically, and the key point of industry problems are learnt at the same time. Procurement execution is from industry ecosystem side, by introducing logistics enterprises as the third party to balance the ecosystem, and achieving the win-win results for all participants. Of course, enterprises with operation difficulties should not only rely on procurement execution. Some companies with profit ratios less than banks' interest ratio, can hardly survive even they get financing opportunities. Only changes in operation and developing mode, increasing product add value, improving finance management capability can help enterprises get success in drastically competitive marketing.

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