

Analysis of Financing Needs of Liquor Companies from the Perspective of Supply Chain Finance

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Abstract:

The liquor industry is characterized by long production cycles, strong seasonality, and high profit margins. Despite significant advancements in contemporary brewing technologies, the overall characteristics of the liquor industry chain, such as its length, multiple links, slow capital turnover, remain unchanged. Companies in the liquor product industry chain face significant financing needs. In recent years, the supply chain finance model has developed rapidly, providing solutions for liquor industry enterprises by reducing financing costs, improving financing efficiency, alleviating information asymmetry, and expanding financing channels. To address the practical issues of expensive and difficult financing for enterprises, enhance the overall operational efficiency and competitiveness of the industry, and provide an effective path for the healthy development of the real economy.

Keywords:

Liquor Companies, Supply Chain Finance, Financing Needs

1. Introduction

The alcohol industry, as a major component of the national economy with a long history and significant production and sales volume, plays an important role in China. Companies in the alcohol industry are also a significant source of tax revenue for the country. "Supply chain finance" is an innovative financial service model where banks and other financial institutions provide comprehensive financial services to upstream and downstream suppliers and distributors around a core enterprise in a supply chain, which differs from traditional financial credit methods. "Supply chain finance" can offer more efficient and convenient financing solutions. Therefore, analyzing the financing needs of alcohol enterprises from a supply chain finance perspective holds great practical significance in easing the financial pressure on companies in the supply chain, reducing financial risks, and helping the entire alcohol industry overcome challenges. This approach can help in improving the financial health and stability of alcohol companies, thereby contributing to the overall growth and success of the industry.

2. Characteristics of the Liquor Industry from a Supply Chain Perspective

The liquor industry's supply chain is relatively short, yet the industrial chain is comprehensive, encompassing eight key stages: raw material cultivation, brewing, blending, storage, packaging, sales, brand building, and after-sales service. For core liquor producers, the more companies involved in the product's supply chain, the longer the capital recovery period for that product. Liquor companies have a long capital occupation cycle primarily due to factors such as cash payments for raw material procurement, production, aging and storage, brand building, and seasonal inventory, all contributing to a slow capital turnover. Specifically:

(1) In the raw material procurement stage, a significant amount of capital is tied up in grain procurement, and the transportation and storage of grains as raw materials incur production costs.

(2) In the production stage, liquor brewing is a time-consuming process, involving multiple stages such as fermentation and distillation, leading to an extended production cycle and prolonged capital occupation.

(3) In the storage and aging stage, high-end liquors require prolonged storage and aging to enhance taste and aroma, resulting in a significant amount of capital being tied up.

(4) Brand building is crucial in the liquor industry; it requires substantial investment and time, including advertisement, public relations, and events. The capital occupancy cycle for brand building is lengthy, necessitating continuous investment.

(5) Seasonality in the liquor industry leads to the risk of inventory backlog, especially during periods of decreased market demand or intensified competition. Inventory backlogs increase capital occupation.

3. It's Crucial to Analyze the Financing Needs of Different Enterprises in the Liquor Industry Chain from the Perspective of "Supply Chain Finance"

The following is a detailed analysis of the financing needs of liquor production enterprises, liquor sales enterprises, and upstream packaging material enterprises:

3.1. Financing Needs of Liquor Production Enterprises

Working capital: used for raw material procurement, packaging procurement, employee wages, utilities, etc.

Research and development: used for new product development, production process upgrades, etc.

Marketing financing: used for advertising, promotional activities, brand building, etc.

Mergers and acquisitions: used for acquiring other liquor production enterprises, expanding production capacity, etc.

Fixed asset investment: used for equipment upgrades, building or leasing warehouses.

Debt repayment: used for repaying bank loans, accounts payable, etc.

3.2. Financing Needs of Downstream Liquor Sales Enterprises

Working capital: used for purchasing liquor products, employee wages, rent, utilities, etc.

Fixed asset investment: used for building or leasing warehouses, transportation distribution network, sales system construction.

Marketing needs: used for advertising, promotional activities, brand building, etc.

Mergers and acquisitions: used for acquisitions, optimizing product mix.

Debt repayment: used for repaying bank loans, accounts payable, etc.

3.3. Financing Needs of Upstream Packaging Material Enterprises:

Raw material procurement financing: used for purchasing materials such as plastic, cardboard, metal, employee wages, rent, utilities.

Production process financing: used for expanding production, process improvement.

Inventory financing: used for stocking-type production.

New product development: used for upgrading packaging anti-counterfeiting technology.

Mergers and restructuring: used for expanding market share and resource integration

4. Comparison of the Advantages and Disadvantages of “Supply Chain Finance” Financing Model and Traditional Financing Model

Supply chain finance: focuses more on collaboration and communication throughout the supply chain, providing more efficient and convenient financing solutions, helping to reduce the financing pressure on enterprises and lower financial risks. Traditional financing model: traditional financing methods mainly rely on collateral and credit loans, which have high interest rates and limited financing amounts. Therefore, innovative financial models are essential to solving the financing challenges, especially in the current context of economic transformation and upgrading.

Through the “supply chain finance” model, the increasing financing needs of various enterprises in the liquor industry chain can be better met, thereby promoting the healthy development of the entire industry chain. The Advantages and Disadvantages between Traditional Financial Model and Supply Chain Finance Model. Please see Table 1 for details.

Through the analysis of Table 1, we found that the Advantages of Traditional Financial Model:

- Low risk due to asset-backed model.
- High credit level of customer assets.

Advantages of Supply Chain Financial Model,

- More convenient fund acquisition.
- Lower fund cost.

-More effective risk diversification.

-Higher fund utilization efficiency.

-Higher information transparency.

Disadvantages of Traditional Financial Model,

-Low fund efficiency.

-High fund cost.

-Insufficiently precise risk control.

-Information asymmetry.

Disadvantages of Supply Chain Financial Model,

-High investment in information platform construction and maintenance.

-High information management requirements.

Table 1. Comparison of Advantages and Disadvantages between Traditional Financial Model and Supply Chain Finance Model.

	Traditional Financial Mode	Supply Chain Finance Model
Advantages	Low risk (collateralized model) High credit level of customer assets	More convenient access to funds Lower capital cost More effective risk diversification More efficient use of funds Higher information transparency
Disadvantages	Inefficient capital utilization High capital cost Insufficient precision in risk control Information asymmetry	High investment in the construction and maintenance of the information platform High requirements for information management capabilities

5. The Models of “Supply Chain Finance” Financing Platform

The “supply chain finance” financing platform provides diversified financing channels for enterprises in the liquor supply chain.

Through various financing methods such as accounts receivable financing, purchasing financing, warehouse financing, advance payment financing, and factoring financing, the financing needs of chain enterprises are met. These supply chain financing models are based on the multi-party collaboration and information sharing mechanisms of the supply chain finance platform.

-Accounts Receivable Financing: Enterprises sell their accounts receivable to financial institutions or third-party platforms to obtain funds. This method allows for quick access to funds, improves liquidity, and reduces the cash flow cycle.

-Purchasing Financing: Suppliers can apply for purchasing financing from financial institutions or third-party platforms to obtain funds for material or product procurement. This method helps suppliers alleviate purchasing pressure and enhance supply chain stability.

-Warehouse Financing: Enterprises can use inventory or warehouse goods as collateral to apply for financing from financial institutions. This approach provides working capital support and reduces financial pressure on companies.

-Advance Payment Financing: Enterprises can apply for advance payment financing from financial institutions or third-party platforms to pay suppliers' advance payments. This method helps companies reduce procurement costs and improve supply chain efficiency.

-Factoring Financing: Enterprises transfer their accounts receivable to factoring companies, which provide financing. This method helps companies solve the problem of long accounts receivable recovery cycles and obtain funds in advance.

How to establish a supply chain finance platform? To set up a liquor supply chain finance platform, the specific steps can be referenced in Figure 1.



Figure 1. *The steps to establish a supply chain finance platform*

In addition to following the aforementioned steps to establish the platform, we also need to pay attention to the following:

Clarify the goals and vision for the supply chain finance platform, as well as the strategic direction it will follow.

Conduct market research to understand the needs and challenges of the target customers in the supply chain.

Determine the technology stack, system components, and overall architecture of the platform.

Implement the necessary features and functionalities required for the platform, such as user registration, financing applications, risk assessment, transaction processing, etc.

Connect the platform with external systems like ERP, CRM, and banking systems to facilitate data exchange and integration.

Implement robust security measures, including data encryption, user authentication, and access controls, to protect the platform and its users.

Conduct thorough testing to ensure the platform's stability, scalability, and user-friendliness. Collect user feedback and make necessary improvements.

Once the platform is ready, launch it to the target market and begin onboarding customers.

Continuously monitor the platform's performance, identify areas for improvement, and make necessary optimizations.

As the platform gains traction, explore opportunities to expand its reach and capabilities, such as adding new financing products or integrating with more external systems.

6. Conclusions

In 2023, China's total retail sales of consumer goods reached 47.1 trillion yuan, a historic high, with a 7.2% year-on-year increase. In terms of consumption types, retail sales of goods increased by 5.8%, while catering revenue increased by 20.4%. The national online retail sales amounted to 15.4264 trillion yuan, an 11.0% increase from the previous year. Physical goods online retail sales increased by 8.4%, accounting for 27.6% of the total retail sales of consumer goods. The role of consumption engine is prominent [1]. Various enterprises in the liquor industry are experiencing an overall decline. Looking at it from a supply chain finance perspective, solving the issues of difficult and expensive financing could be an effective path to overcoming the current operational challenges faced by businesses.

Conflicts of Interest

The author declare that there is no conflict of interest regarding the publication of this article.

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