

## **Describes the current situation of the logistics financial development in China by contrast with UPS logistics financial mode briefly**

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### **Abstract:**

*Logistics finance as a new model, by more and more attention in recent years. This paper briefly introduces the concept of the logistics financial. Through the reservoir group compared with UPS logistics financial business mode, analyzing logistics finance development mode and the present situation in China.*

**Key word:** Logistics finance, Small and medium-sized enterprises, UPS

Recently in China, logistics finance has got a quick development, but is still left far behind the developed countries such as European countries and America. Through comparing global logistics finance we can good understanding of it and learning from their experiences.

### **1. The system of UPS's logistics finance.**

As for UPS, the worldwide leader in logistics, the core business of it is distributing goods and information. But since the early 20th century, top group have realized "full supply chain management" will become the main stream of social. If UPS wanna keeping continuous development, it have to get rid of the old business pattern. So UPS proposed the solution of supply chain after widely surveyed. It is mainly engaged in such as cargo distribution, global freight, customs clearance, financial service and business development. Through the funds flow, information flow and material flow are integrated to constructs a complete supply chain. UPS was established UPS capital-goods firm in 1998 to achieve the vision. Not only that, UPS bought the First America international bank in 2001 and integrated in capital-goods firm, its functions are provide financial service between internal and external, include value-added service,

equipment rental, electronic invoices and payment, global trade of financial and insurance. Through four in the one (UPS package delivery company, logistics company, capital company and retail company) to catch the whole process of logistics financial services. The goods have been in their own hand can avoid the risk with different individuals.

## **2. UPS's business models**

### **2.1 Contracting with fund service**

Most enterprises entrust the transport of goods as collateral for the loan guarantees when UPS carrier takes the goods to transport. Meanwhile, UPS immediately instead of consignee be paid half of the goods to the shipper, the consignee pay all the funds after got goods. The time difference of funds flow means that UPS get a half of all funds without interest, UPS use it as loans to other customers and earn interest. UPS is carrier and easy to know the information at each stage of transit. Comparing with financial institutions, UPS's capital firm can start the program of trade financing without vendor to verify after the goods are dispatched.

### **2.2 Value added services**

UPS as third part instead of large enterprises docking with SME. It will pay for purchases to exporters within two weeks at the latest on the condition that it should get some service from exporters like cargo and clearance. Meanwhile, it will get a considerable fee. Moreover, small exporters get immediate source of cash flow. And UPS who have their own bank can settlement with large enterprises one by one with enough funds, like UPS and Wal-Mart.

## **3. The influence of logistics finance on UPS.**

In the 21st century, UPS has been used to around 8% operating profit margins, it has improved a lot more than 2% in the past. It attributable to the continued developing logistics finance service of the group. According to statistics, income from logistics finance business has been becoming the main profit resource instead of traditional cargo business. The thing that marks the beginning of the UPS's logistics finance was bought The First America bank in 2001. Through the internal financial institutions, it's very good have realized to control the cost and the financial business chain in the logistics. From 2004 to 2006, UPS's income from operating increased from 50 million US dollars to more than 66 million US dollars. And the income increment from traditional business remains generally stable, only add around 4 million US dollars. In times of crisis, UPS falling by 49% in the first half of 2009, but it get a steady and stable inflow of cash by logistics financial. 1.95 million US dollars cash flow growth making UPS accumulate about 27 billion US dollars cash. It is important in the global economic slump.

## **4. Logistics financial model of UPS difference with Chinese model.**

There are some successful experience in the logistics financial mode, it will be beneficial for our country's logistics financial service. Although our country started to explore in this field, like China National Materials Storage And Transportation Corporation, it did the first warehouse receipts pledge business in 1999. But after developing for many years, logistics financial in our country did not achieve significant

results. The main differences can be concluded as the following parts:

#### 4.1 Separate operation

UPS use material flow and information flow stimulate financial, the perfect realization of the mixed operation between the logistics industry and financial industry through a series of acquisition and mergers. Joint operation and separate operation are two models of banking system in the world. At present, the mode of segregate management system in China is incompatible with the international community. Different principle may differ greatly in the emphasis placed on certain aspects of the program, they can only cooperate in some aspects with same benefits. So it led to organizational structure become loose and unable to achieve the whole supply chain cooperation with close cooperation.

#### 4.2 Different leading party.

The subject of the logistics financial in China is made up of three follows: financial institutions, logistics enterprise, small and medium enterprise. All three are relatively independent individual, the master is still a financial institutions. Logistics enterprise join the financing arm by the third-party media supervision agreement, lacking initiative in this system. UPS revenues and profits is the main source of value-added, but in China, logistics enterprise main source of income is regulatory income, it account for 90% of the income. So it is clear that leading party is bank not logistics enterprise like UPS.

		UPS	Logistics enterprise in China
<b>Differences</b>	Business ideas	Supply chain solutions	Different main body with different ideas
	System	The combination of logistics capital and financial capital	Separated operation
	Organization	Logistics, capital, retail combined with capital company	Loose integrate with bank loan center and pledge supervision department in logistics enterprise
	Business mode	Vas, contracting, financing	Impawning supervision, confirming the storehouse, The bill of lading supervision and regulation of supply chain, etc
	Logistics information technology	Powerful	Weak
	Global logistics capability	Powerful	Weak, strong local

	Borrower	Mainly export and import	Mainly for the domestic production enterprises, trade companies
<b>Similarities</b>	Business infrastructure	Global logistics operations	Local logistics business
	Financial risks.	Uniform control, risk low	Banks, logistics companies control respectively and make the risk lower than other form
	Service object.	SMEs	SMEs
	Guarantee form	The pledge	The pledge
	Income	Logistics value-added income is considerable	Regulatory costs

It is observed from the form that logistics financial in China started late, the scale and level of logistics financial development, and there is a large gap between the developed Western countries. The mode of segregate management, risk transfer, enterprise's scale smaller than large international enterprise, business operation with no uniform standards of professional appraisal practice, domestic legislation on logistics financial is still very imperfect. In addition, due to the idea promotion about logistics financial is not enough, SMEs can't be fully accepted this service right now, it supply some restrictions to the development of logistics financial. In addition, the lack of modern logistics talent, logistics enterprise basic equipment update, the establishment of information system, the improvement of the management system is to carry out the serious problems facing the logistics finance in China.