



Financing Strategy Choice for Lvending Corporation

Lixia Wang, Nan Zhang, Yan Xu¹

Lixia Wang, the graduate tutor of SHU-UTS SILC Business School, Shanghai University, P.R. China; Nan Zhang and Yan Xu, the undergraduate students of SHU-UTS SILC Business School, Shanghai University

Abstract:

Until now, the domestic and foreign scholars' research on financial pattern mainly focuses on five aspects including governments' financing pattern, network financing pattern, culture industry's financing model, ST SMEs' financing pattern and supply chain's financing mode. This essay summarizes the current research status of financing mode at home and abroad in recent years. And this essay analyses the present situation of the development of domestic vending industry compared with that of the United States and Japan. Meanwhile, this essay takes Suzhou Lvending smart union technology co., LTD for example and records the financial models' exploration, innovation and choice carried out by Lvending Company in order to solve the problems of narrow financing channels and inefficient market extension.

Key words: vending machine; Lvending Corporation; loan guarantees; financing model

LITERATURE REVIEW

1.1 Current Domestic Research Status

For governments' financing pattern, ZhengSiqi (2014) pointed out that most governments choose land financing which acquires capital through leasing, selling or auctioning the profit-oriented land to get land's economic value. In addition, as for infrastructure construction, Xiao Xiang (2006) considered that governments have three basic financing patterns, these are government investment mode, market investment pattern and mixed financing pattern. For network financial pattern, Xie Ping and ZouChuanwei (2012) pointed out that based on Internet having significant impact on traditional financial industry, it is possible to form a network financial pattern between commercial banks' indirect financing and market's direct financing. The network financial pattern uses online third-party payment platforms to complete a series of financing activities including online financing and so on. Besides, Li(2013) referred to that crowdfunding is also a new network financial mode along with the rapid development of Internet. For culture industry's financing model, Zhou (2007) pointed out that the major financial methods for culture companies are private-equity, issuing stocks and

transferring equity. For the ST SMEs' financial pattern, Zhou (2006) did some research and gave his opinion that ST SMEs' main external financial channels are commercial banks, securities market, government sectors, private capitals and so on. Cui(2008) researched the basic evolution rules of companies' financing and pointed out that ST SMEs should choose different financing patterns in different stages of development. For the supply chain's financial pattern, Li (2010) considered that supply chain's financial pattern is the new perspective for solving the companies' financing difficulties. Under the supply chain's financial pattern, all the companies which in the supply chain can get the support from financial institutions. And the capital will be injected into the company which needs the funds urgently. Therefore, the work process of whole supply chain can be activated efficiently.

1.2 Current Foreign Research Status

For governments' financial pattern, foreign scholars have done deep research on PPP (Public-Private-Partnership) financial pattern. Jonathan P. (2009) considered that depending only on the support of financial allocations leads to the inefficiency of infrastructure construction projects. In this situation, government sector should use public-private partnership to



improve the project's completion quality. For network financing mode, Lee (2012) made a comparative study between P2P (peer-to-peer) network financial pattern and traditional financing model. And in the aspect of online credit behavior, Lee (2012) found the herd behavior which means that under the rising of bid participation rate, the interaction between borrowers and bidders increases and more borrowers will be attracted into the bid project. Besides, America appeared crowdfunding which is a new network financial method in recent years. Therefore, American «Jumpstart Our Business Startups Act » (JOBS Act) which issued in 2012 has special provisions to improve the development of crowdfunding. For culture industry's financial pattern, EvaNeitzert (2008) pointed out that the country should take the methods like financial allocation, setting up industrial funds, setting up investment alliance and so on to provide capital for culture companies. For ST SMEs' financial pattern, LeoraKlapper (2006) putted forward credit guarantee which aimed at solving companies' financing difficulties. In addition, Thorsten Beck (2006) considered that financial lease can also solve ST SMEs' financing difficulties. For the supply chain's financial pattern, Demica (2008) expressed his opinion in the research report that supply chain's financial can improve and increase companies' financing channels efficiently. Moreover, supply chain's financing can improve the whole supply chain's profits, ensure the upstream and downstream companies' cash flows and maintain the efficient capital turnover for the companies in the supply chain.

2. BACKGROUND OF LVENDING CORPORATION

2.1 Brief introduction of Lvending Corporation

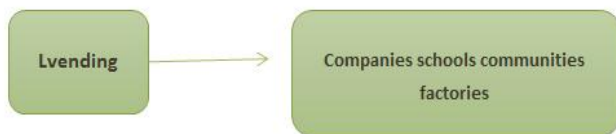
Suzhou Lvending vending co., LTD was founded in September 2007, and in December 2013, Lvending renamed and restructured itself into Suzhou Lvending smart union technology co., LTD. Lvending's headquarters were established in Kunshan city, Jiangsu province which occupies the first place of the top one hundred national countries. Lvending is the domestic leading professional vending operator which firstly passes ISO9001:2008 international quality certification system. Its business outlets cover Yangtze River delta, Pearl River delta, Bohai Sea, central plains, southwest and other important economic zones. Meanwhile, Lvending is also the 'Quality credit AAA enterprise of Jiangsu province' and 'Brand enterprise in Jiangsu province'. Up to now, Lvending has opened more branches in different parts of the country successfully; it has thousands of vending machines and becomes the leader of domestic vending industry.

Lvending's business scopes are very wide including pre-packaged food retail; general road transportation; lease and retail of vending machines; sales management of food in nonphysical forms; sales of office supplies, communication equipment, electromechanical equipment, craft gift, daily necessities; research and sales of computer and vending machine's software and hardware; business management consultancy; exhibition service; import and export business of goods and technology. Nowadays, Lvending's branches cover electronics, electrical appliances, communication, automobile, mechanics, education, scenic spot, station, market place and so on. In the further development, Lvending will continue to expand its business areas all over the country and open new branches.

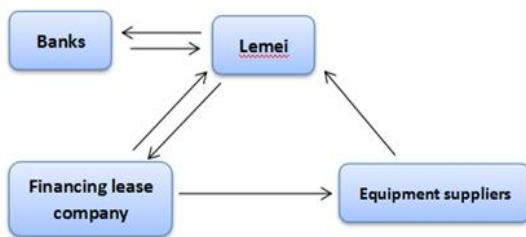
Now, existing staffs in Lvending Company are more than 100 people and Lvending has been advocating the values 'service first, the honest good faith, unity and innovation, the pursuit of excellence'. At the same time, Lvending makes efforts to provide generous, rational and competitive salaries and welfare

for staffs. Moreover, Lvending concentrates on staff training and implements career development plans in order to create a fair competition environment for staffs.

2.2 THE PRESENT BUSINESS MODEL AND FINANCING CHANNELS OF LVENDING CORPORATION



2.2-1



2.2-2

The above picture 2.2-1 reflects Lvending's traditional commercial mode at the present stage, which called relationship marketing. Relationship marketing means that salesmen utilize their social relations to sell vending machines to companies, schools, communities, factories. However, it becomes difficulty for Lvending to find new investors because Lvending lacks competitiveness in product market with the shortages of personalities in products and services. Meanwhile, Lvending's price advantages are not obvious. Additionally, salesmen's social relations have almost run out. As a result, the traditional marketing way turns inefficient and the speed of Lvending's marketing points expansion is slow obviously.

The above picture 1.2-2 reflects Lvending's two main financing ways in the present stage. The first is applying for bank loans. At present, Lvending gets mortgages from banks by using land property and real estate as collateral. Nevertheless, because the scale and the total cash flows of Lvending are small, the credit loans from banks are limited.

The second financing way is financing lease of vending machines. Based on the commercial negotiation between Lvending and financing lease company, the financing lease company provides funds to buy vending machines from equipment suppliers and leases them to Lvending who pays the rental. During the lease term, Lvending has the right to use vending machines and the ownership of vending machine belongs to financing lease company. On the whole, Lvending does not get enough development funds from outside through existing financing methods and its financing channels are relatively narrow.

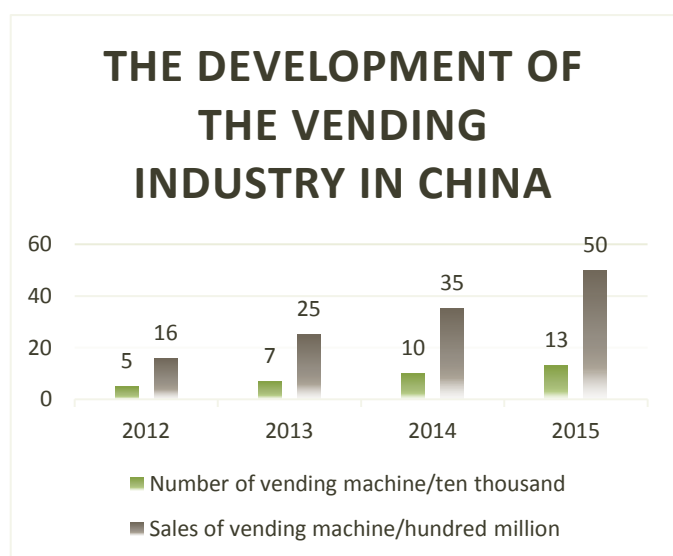
3. THE STATUS QUO OF VENDING INDUSTRY

3.1 Vending industry in China

In 1999, the vending machine began to enter the Chinese market. However, investors preferred to opening stores as influenced by the low labor costs, people's concept and operating environment. Thus, the development of vending industry in our country was relatively slow in the first five or six years. After 2006, vending machine which can omit manpower costs got the favor of investor with the increase of labor costs and rent. Li Yuesheng caught the business opportunities and registered Lvending vending co., LTD in Kunshan city, Jiangsu province in 2007. Before 2013, domestic vending business gave priority to beverage and food sales, and the value-added services only included the fuselage print ads basically. Since 2013, under the impetus of Lvending, Ubox and other operators, domestic vending machine turns to intelligent transformation. Nonetheless, the value-added services brought from 'Internet plus vending machine' are still in initial stage.

The below picture 3.2-1 shows that domestic vending industry achieved rapid growth in aspects of machines numbers and sales volumes from 2012 to 2015. Until 2015, the number of vending machines in China was 130 thousand approximately, and the sales of vending machine were five billion

approximately. However, these numbers are trivial when compared with the China's population of 1.3 billion. Vending professional committee of China predicts that the number of vending machines will attain three million and the sales volume of vending industry will attain sixty billion in the mature period of vending market in Chinese mainland. At the appointed time, Chinese vending industry will become a huge industry.



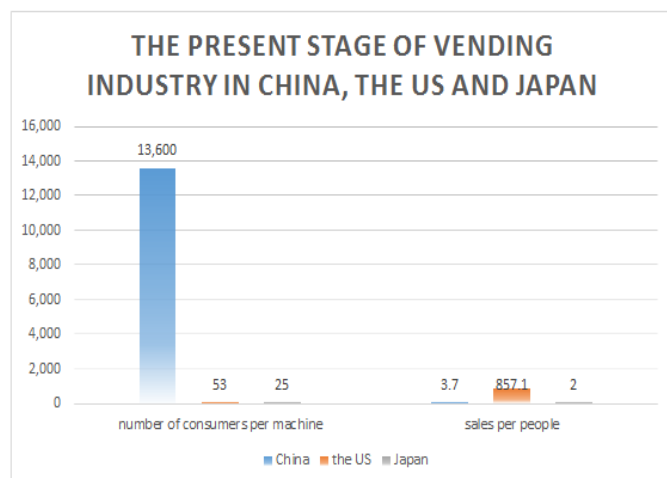
Source: China Market Monitor CO., LTD

3.1-1

3.2 VENDING INDUSTRY IN THE US AND JAPAN

The vending markets in the US and Japan are relatively mature compared with that in China. In 1962, the United States and Japan arose a revolution in the field of circulation which focused on vending machines. In the 1980s, the vending machines were widely used in the United States and Japan. At present, there are more than 2000 machine models and 6000 products in Japanese vending industry. At the same time, the US has more than 10800 vending operators and they have cooperative experience with great drinks and food dealers. The below picture 3.2-2 shows the present status of vending industry in China, the US and Japan. Compared with

the mature industry in the US and Japan, the number of consumers per machine is the largest, but the sales volume per people is the smallest in Chinese vending industry. The prosperity of the United States and Japan vending industry has highlighted that the vending industry in our country also has very big development space. And the vending business has been adopted in national industry development strategy as non-store sales model. In May 29th 2015, the specialists from ministry of commerce researched Lvending Company and advocated that other companies in vending industry should learn the normalized management experience of Lvending. Therefore, the vending industry in China has entered the track of development. It is believed that Chinese vending industry will be more prosperous in the future.



Source: National Association of Manufacturers

3.2-2

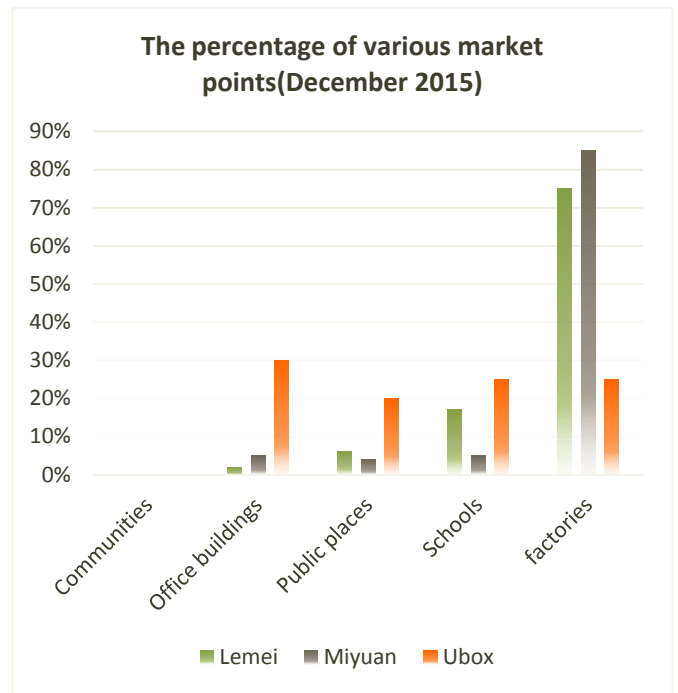
4. Analysis of Lvending's Competitive Situation

The main competitors of Lvending include Beijing Ubox Corporation, Shanghai Miyuan Corporation, small and medium-sized entities shop operators. Nowadays, their fierce competition mainly reflects in the following aspects:

In the respect of vending machines' ownership, according to *The market investigation and investment prospect research*



report of Chinese vending industry in 2016-2021, by the end of December 2015, Ubox had 38000 machines approximately and Miyuan had 15000 machines nearly, but Lvending only has about 5000 machines. Lvending lags behind the Ubox and Miyuan in the number of machines. On the consideration of financing, Ubox and Miyuan gained investors' investment successively. However, Leimei's expansion speed is insufficient obviously because its financing channels are limited to bank loans and financing lease. And Lvending uses the most funds to purchase lands and build factory buildings which cause the shortages of operating funds. On the contrary, Ubox leases office buildings. In the field of IT platform, Ubox is the industry leader and Miyuan is in the initial stage while Lvending's IT platform has only finished partial function modules and there is need to develop new functions and consolidate them. Meanwhile, small and medium-sized entities shop operators have more flexibility in adjusting products, price, market points and personalized service than vending operators. Finally, Ubox attracts a large number of franchisees through increasing commission and brings great pressure to Lvending and other vending operators.



Source: The market investigation and investment prospect research report of Chinese vending industry in 2016-2021

4-1

The key of getting stable and rapid development for vending industry is to achieve more market points. The above picture 4-1 reflects the comparison of various market points of Lvending, Miyuan and Ubox on December 2015. It can be seen that although Lvending has more competitive advantages than Miyuan in public places and schools, there is a wide gap between Lvending and Ubox which is the leader in this industry. Therefore, in the respect of external competition, Lvending's abilities of the market points' expansion are lower than Ubox obviously and Lvending is under great pressure from Ubox.

Meanwhile, Lvending's development is also limited by the shortages of funds. Lvending's financing channels are narrow and cannot get investment from outside which cause a series of problems. For example, Lvending lacks enough funds to research and develop IT platform causing many good ideas



cannot be implemented timely. As a consequence, the personalized level of Lvending's vending machine is low. Besides, Lvending does not have funds to carry employees training, and it is not conducive to the improvement of employees' overall business level. Additionally, Lvending's market shares are obviously lower than Ubox, Miyuan and other competitors, and Lvending cannot play scale economies effect causing the management costs higher. Moreover, Lvending's value-added services are in initial stage, the number of vending machines is small and the incomes are still at lower levels, Lvending's profitability is apparently not enough. At the same time, there are also many defects in Lvending's drinks distribution logistics routes design, and Lvending's inefficient using of transport resources results in the high transportation costs.

In conclusion, Lvending faces fierce competition with Ubox, Miyuan, small and medium-sized entities shop operators, and it cannot expand its market points efficiently. Meanwhile, Lvending has difficulty in financing. In order to break through the above development bottlenecks, Lvending need to implement financing model innovation, choose new financing strategies to expand financing channels and acquire outside funds to support its market points' expansion.

5. Lvending's choice and exploration of financing strategy

There are five financing ways which can be chosen in the market, but many problems also exist in Lvending's implementation process.

5.1.1 LOAN FROM BANK

Bank loan is the main financing method of Lvending at present. Lvending uses factories, office buildings and other fixed assets as collateral for bank mortgage loans. However, Lvending cannot get credit loan because of two reasons. The first reason is that Lvending's scale is not large, and does not have competitive advantages in market points compared with Ubox,

Miyuan and other vending machine operators. The second reason is that Lvending does not have enough cash flows in banks.

5.1.2 FOLK FINANCING

The main prominent characteristic of folk financing is the high interest, and the interest is about four times or more as high as bank interest. Regard of Lvending's low profitability, it is difficulty for Lvending to pay high folk financing interests. Once Lvending's capital chains rupture, Lvending will accumulate huge interest debts and even faces bankruptcy in serious situation. Thus, the risks of folk financing are too high for Lvending.

5.1.3 FINANCING LEASE

Up to now, Lvending has exhausted financing lease of vending machines. Generally, the cost of financing lease is high. And the fixed rental payment monthly is Lvending's burden. Meanwhile, the financing lease has more risky factors compared with bank loans. Therefore, Lvending does not have long-term plans for financing lease because this financing method cannot provide funds stably and solve Lvending's financing difficulties efficiently.

5.2 EQUITY FINANCING

5.2.1 PRIVATE PLACEMENT

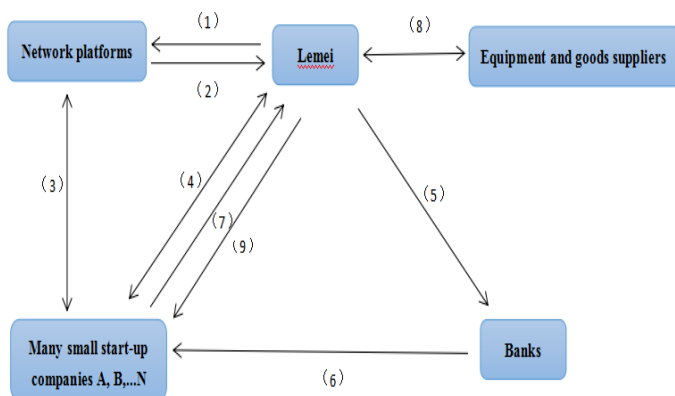
Ubox got 530 million yuan investment from Carlyle in July 2015 which brings great competitive pressure to other vending machine operators. Ubox expands market in the form of franchisees while Lvending relies on traditional relationship marketing. Lvending does not have good profit models and the state of management is poor. Therefore, it is hard for Lvending to appeal investors compared with other powerful enterprises.

5.2.2 CAPITAL INCREASE

Lvending is currently not listed. Beyond that, most of Lvending's shareholders are young employees working in enterprises, they basically have no savings and it is not possible for them to increase investment.

5.3 THE INNOVATION OF LVENDING'S FINANCING MODE

To break through the bottleneck of narrow financing channels and inefficient market extension, Lvending creates a new win-win business model as shown in the below chart 5.3-1. Small start-up companies in the chart refer to small companies who are in their initial stage and they do not have determined investment objectives, meanwhile, they lack business experience of investment projects and their risk tolerance is limited.



5.3-1

- (1) Lvending publishes the project information about bank loan guarantees aimed at small start-up companies on Bang camp and other network platforms.
- (2) Based on shared economy, Bang camp and other network media can advertise on Lvending's vending machines with a more favorable price.
- (3) Bang camp and other network media deliver the project information about bank loan guarantees to small start-up

companies. The small start-up companies who are willing to join this project sign up on these network platforms and deliver application forms and financial statements etc.

- (4) Lvending evaluates the application form and other documents, determines the feasibility and amount of guaranteed loans and signs relevant contracts with selected small start-up companies.
- (5) Lvending makes loans guarantees with bank for the selected small start-up companies.
- (6) Under Lvending's guarantee, banks lend money to these small start-up companies.
- (7) Small start-up companies invest these loans in Lvending by purchasing vending machines.
- (8) After receiving orders from small start-up companies, Lvending uses completed information system to calculate the optimal equipment and goods quantities to achieve maximum profit based on historical data. Then Lvending makes orders to equipment and goods suppliers. After that, equipment and goods suppliers send the signed equipment and goods to Lvending.
- (9) Lvending simplifies the logistics lines, improves the utilization efficiency of logistical resources and sends vending machines and goods to these small start-up corporations.

5.4 Earnings analysis of small start-up company and Lvending in win-win business model



Table 1 : Analysis of Small Start-up Company's Earnings in Win-win business model.

The Calculation Table of Small start-up Company's Earnings (¥)					
Model one: investment with companies' own capital			Model two: investment with 30% capital loan from banks		
Total investment	100,000.00	Total investment	Own capital	100,000.00	
			Bank loans	30,000.00	
Service life/year	8	Service life /year	8		
Income /year	Sales revenue	150,000.00	Income /year	Sales revenue	205,000.00
	Advertising revenue	5,000.00		Advertising revenue	6,500.00
Rebate	*	Rebate (30%)	63,450.00		
Fixed cost	12,500.00	Fixed cost	Machine depreciation	16,250.00	
Variable cost	110,000.00		Loan interest	1,800.00	
Profit	32,500.00	Profit	45,400.00		
Rate of return on investment ²	32.50%	Rate of return on investment	45.40%		

Suppose a small start-up corporation invests 100,000 yuan in Lvending, the sales revenue, fixed cost, variable cost and other relevant statistics are estimated values of historical data. Model one means that the company purchases Lvending's vending machines and goods using own capital completely, and they manage these machines by themselves. Model two refers to the situation that this small start-up company provides Lvending with market points and purchases Lvending's vending machines after joining Lvending's project of bank loan guarantees. The enterprise does not need to operate these machines by themselves and they can get stable rebate from Lvending on schedule.

1. The depreciation cost in model one = $100,000.00/8$

The depreciation cost in model two = $130,000.00/8$

In the model one, this small start-up company's fixed cost is machine depreciation, and the variable costs include purchase cost, value added tax and management cost etc.

In the model two, this small start-up company does not need to operate these machines, the company only bears the machine depreciation cost and bank loans interest every year.

2. Rate of return on investment = profit/own capital

Table 1 shows the comparison of small start-up corporation's return on investment in two models. The rate of return on investment is 32.50% when this company uses 100% own



capital to invest in Lvending. While that becomes 45.40% when the company gets bank loans of 30% initial own capital through Lvending and achieves rebate of Lvending total income's 30%. The small start-up company's three-year profit can offset the initial investment and bank loans. Meanwhile,

the company's return on investment increases with the increase of the ratio of bank loans to total investment. Therefore, it can be concluded that it is beneficial for small start-up corporations to join Lvending's project of bank loan guarantees.

Table 2: Analysis of Lvending Company' Earnings in Win-win business model.

The Calculation Table of Lvending's Earnings (¥)		
Lvending's sales income ¹	Vending machines	130,000.00
	Drinks	205,000.00
	Advertising	6,500.00
Fixed cost ²		85,000.00
Variable cost ³		120,000.00
Income		136,500.00

1. The 'Lvending's Sales Income' includes the total investment of start-up companies in purchasing Lvending's vending machines, sales income of drinks and the revenue of fuselage print ads.

2. The 'Fixed Cost' means vending machines' purchase price of Lvending.

3. The 'Variable Cost' includes cost of goods purchased, value-added taxes and operating costs of Lvending.

Table 2 reflects that Lvending's income reaches 136,500.00 yuan in win-win business model. Compared with the business model one in table 1, Lvending's income is just 85,000.00 yuan (the after-tax estimated value of ¥100,000.00) which almost comes from small start-up company by purchasing

vending machines, Leimei can acquire an extra profit in 51,500.00 yuan in the new business model. Additionally, this new business model will attract a larger number of small start-up companies to join, which creates greater profits for Lvending.

5.5 Analysis of each participant in the win-win business model

5.5.1 LVENDING

Lvending guarantees for small start-up companies' bank loans, as a feedback, these small start-up enterprises invest these loans in Lvending by purchasing vending machines. Lvending realizes indirect financing in this way. And it is difficulty to



borrow large amount of money from banks by Lvending itself. However, Lvending can accumulate larger amount of funds through this indirect financing channel by guaranteeing for small start-up companies' bank loans. It is effective to solve Lvending's financing difficulties at this stage.

In another aspect, this new business model breaks through Lvending's inefficient bottleneck of finding new customers by marketing teams. In this new business model, Lvending converts itself from goods salesman to service and goods supplier, small start-up companies cooperate with Lvending on their own initiative and Lvending implements innovation in its traditional relationship marketing model. Additionally, through making bank loans guarantees for small start-up companies, Lvending can deliver vending machines and goods to market points which provided by many small start-up companies effectively. And the speed of market expansion and market shares of Lvending increase significantly. At the same time, Lvending achieves rational equipment and goods quantities based on the constructed union information system to reduce the redundant inventories and warehousing costs.

5.5.2 SMALL START-UP COMPANIES

It is difficult for small start-up companies to acquire bank loans by themselves because of the low credit rating. And it can be hard for small start-up companies to achieve balance of payments only using their limited funds to purchase Lvending's machines and goods. As a result, the probability for Lvending to promote vending machines to these small start-up companies successfully is minimal. Nonetheless, if small start-up companies join Lvending's new business model, they could get enough funds to purchase Lvending's vending machines. The quantity of Leimei's vending machines purchased by small start-up companies increases, as a result, there exists a scale effect which raises the marginal revenue of investing vending machines for small start-up companies. And after purchasing vending machines, these small start-up

companies do not need to operate the vending machine by themselves, Lvending owns the right of operation and supplies goods regularly. At the end of the month, Lvending accords vending machines' sales and then gives a certain percentage of rebate to small start-up companies. Thus, it can be judged that there is almost no risk for small start-up corporations to join Lvending's new business model, because small start-up enterprises only need provide market points and they can get rebate from Lvending. After offsetting the original investment and bank loans, small start-up companies can achieve stable revenues from this project. Therefore, this secured loan project appeals numerous small start-up companies and it is beneficial for Lvending to expand market point quickly. Finally, this business model promotes the development of start-up enterprises and is in the times trend of public business innovation.

In addition, regard of the possible changes of small start-up companies' investment directions and balance of payments, Lvending can recollect the unneeded vending machines according to the yearly depreciation price. This action significantly reduces small start-up companies' investing risks in Lvending and activates more small start-up corporations to join this new business model.

5.5.3 BANK

In the background of public business innovation, banks are the main suppliers of investing funds. The banks' transaction costs and risks of distributing loans dispersedly are high. However, in this new business model, banks' loan business can be operated in batch under the premise of small start-up companies' bank loans guaranteed by Lvending uniformly, and the risks which confronted by banks are smaller. And considering of these loans' purpose, small start-up corporations can get stable revenue by investing these loans in purchasing Lvending's vending machines. As a consequence, the ability of small start-up corporations to repay bank loans increases.



Meanwhile, the banks' risks of bad debts are also reduced. Ultimately, in this new business model, the banks become the powerful driving force to promote the development of entrepreneurial enterprises when the banks lend loans to small start-up enterprises to satisfy these corporations' needs for funds.

5.5.4 BANG CAMP AND OTHER INTERNET MEDIA

For Bang and other Internet media, the cooperation with Lending which belongs to project docking can bring shared economic effects for them. On one hand, Bang camp and other Internet media make more enterprises know Lending's secured loan project information based on their vast resources platforms. On the other hand, Bang camp and other network media can save their advertising expense by advertising on Lending's vending machines at a more favorable price. Moreover, with the expansion of Lending's market points, the audiences of these advertisements will increase rapidly and this can improve the popularity of these Internet media.

6. CONCLUSION

To make a conclusion, this new business model relates Lending and small start-up companies, banks, Internet media, equipment and goods suppliers tightly. Not only the problems of financing difficulties and slow market expansion are solved, but also reply to Chinese government's call of public business innovation. This model creates new cooperation way between Lending and Internet media which promotes the development of entrepreneurial corporations and reduces the loan risks confronted by banks. Lending's new business model has great practical significance and can generate revenues for every participant.

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