

# Overview of Logistics Finance Theories

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**Abstract:** Logistics finance is of great significance in helping companies bail out. Not only that, different models of logistics financial business types also have different impacts on business risks. This article starts from logistics finance, expounds its role and significance in the modern economic system, subdivides logistics financial business into three aspects: logistics settlement finance, logistics warehouse receipt finance and logistics credit finance, and analyzes their role in supply chain management and the key role in the financial field, and further in-depth research on the risks faced by the logistics financial field. It is hoped to provide in-depth insights to practitioners and decision-makers in the field of logistics finance and help them better understand and manage the risks associated with it to ensure the sustainable development and successful implementation of logistics finance business.

**Keywords:** Logistics Finance; Logistics Financial Risks.

## 1. Introduction

With the rapid development of the global economy and the vigorous development of international trade, the logistics industry is rapidly emerging as an important producer service industry. In this era of globalization, logistics is not just a simple link in the transportation and warehousing of goods. It has evolved into one of the key engines that promotes international trade and economic development. In addition, relevant data shows that the number of logistics companies in China has exceeded 870,000.[1] and it is predicted that the capacity of the logistics financial market will reach 51.89 trillion yuan in 2026.[2] With the continuous expansion of business scale, consumers have higher and higher requirements for logistics services, and logistics companies are increasingly in need of financing to meet their business development and capital needs [1].

Logistics finance is a composite business concept that combines logistics and finance. It not only improves the operational capabilities and efficiency of third-party logistics companies, but is also beneficial to corporate financing and improves capital operation efficiency, but it also carries considerable risks. Therefore, this article conducts research on China's logistics finance and risks, hoping to provide certain theoretical support for the development of my country's logistics finance.

## 2. Logistics Finance

### 2.1. The Connotation of Logistics Finance

In a broad sense, logistics finance refers to a type of third-party logistics service product that involves financial services in the field of logistics. It entails the application and development of various financial products to facilitate the flow of funds and currency within the logistics industry. This includes various types of loans, trusts, leasing, mortgages, and intermediate business transactions conducted by financial institutions in the logistics process [2]. On a narrower scale, logistics finance specifically refers to the provision of goods and funds to customers by third-party logistics providers and financial institutions during the supply chain management process for conducting financial activities.

Logistics finance, as an emerging financial model, has gradually gained wide acceptance among logistics companies in China. Logistics finance represents a collaborative business that enables logistics companies, financial institutions, and financing enterprises to achieve their respective goals. The collaboration among these three parties facilitates complementary advantages in terms of logistics, fund flow, information flow, and talent, thereby enhancing the trust among traditional enterprises' cooperation.

The emergence of logistics finance is closely linked to the development of the logistics industry. Logistics finance is a composite business concept that combines logistics with finance. It not only enhances the operational capabilities and efficiency of third-party logistics companies but also facilitates corporate financing and improves capital operation efficiency. The logistics finance business involves three main entities: logistics companies, financing enterprises, and financial institutions. Logistics companies collaborate with financial institutions to provide financing for financing enterprises, while both logistics companies and financial institutions benefit from the process. The development of this business holds significant economic significance for all three entities [3].

### 2.2. Types of Logistics Finance Businesses

There are currently three main types of logistics financial services in China:

#### 2.2.1. Logistics Settlement Finance

Logistics settlement finance refers to financial activities that use various settlement methods to finance logistics company customers. At present, there are mainly business forms such as collection of payment, advance payment, and acceptance of bills.

The payment collection business is a logistics company that provides physical goods delivery services to enterprises (most e-commerce companies), and at the same time helps suppliers collect cash from buyers, and then transfers the payment to the shipping company and collects a certain percentage of the fee. This business has high added value, lower operating costs and less additional investment. At the same time, this business also has the characteristics of regional concentration, which is conducive to scale operations. The benefits of collecting

payment directly belong to the logistics company, and at the same time, the shipping company can also obtain convenient and efficient services.

The advance payment business means that when a logistics company transports a batch of goods for a consignor, the logistics company first prepays part of the payment for the goods on behalf of the consignee. When the consignee comes to pick up the goods, the consignee then pays the full payment to the logistics company. To mitigate the impact of advanced payments on the logistics company's funds, there is an alternative mode of operation: the shipper transfers the ownership of the goods to the bank, and the bank provides financing funds based on market conditions at a certain percentage. After the consignee repays the amount to the bank, the bank releases the goods to the logistics company and returns the ownership to the consignee.

Under this model, the role of logistics companies has changed, from the original credit subject to an auxiliary party that provides banks with cargo information, undertakes transportation, and helps control logistics financial risks. This business enables financing companies to obtain financing, banks to obtain interest income, and logistics companies also obtain profits by providing services such as logistics information and logistics supervision.

Bank acceptance bill is also called confirmed warehouse business, which refers to financing business in which the buyer applies to the bank for a loan amount pledged by the supplier's established warehouse in the bank's appointed warehouse on the premise that the supplier promises to repurchase, and the bank controls the buyer's right to take delivery. In this business, third-party logistics companies actually control the business and provide supervision for the bank.

At the same time, banks have less risk under the bonded warehouse model. The financing enterprise pays a certain deposit to the bank and then issues an acceptance bill, which is accepted by the bank. The payee is the upstream manufacturer of the financing enterprise. The manufacturer starts shipping to the logistics company's warehouse before receiving the bank acceptance bill. When the goods arrive, the warehouse was then converted into a warehouse receipt pledge. If the financing company is unable to repay the bank funds when due, the upstream manufacturer will repurchase the pledged goods [4].

### **2.2.2. Logistics Warehouse Receipt Finance**

Logistics warehouse receipt finance mainly refers to financing warehouse financing, which means that production and operating enterprises first use their purchased raw materials or finished products as pledges or deposit counter-collateral into the financing warehouse to obtain bank loans. The financing enterprise repays the loan in stages during its subsequent production and operation process or during the sales process of pledged products. Logistics companies provide value assessment, destination supervision, credit guarantee and other services for pledged items, serving as a link between banks and enterprises for financing.

This model is conducive to the product sales of manufacturing companies, helps small and medium-sized production and trading companies obtain financing, and is conducive to the repurchasing party to expand its own business, allowing lenders and repurchasing parties to cooperate closely to achieve a win-win situation. Logistics suppliers applying this business need to have rich warehouse management experience, professional personnel and

complete operating specifications [4].

### **2.2.3. Logistics Credit Finance**

Logistics credit finance means that financial institutions grant a certain line of credit to a financing company based on its size, operating performance, asset-liability ratio and credit level. Logistics companies use these credit lines and the logistics data of financing companies in the logistics company to provide flexible pledge loan business to financing companies. The logistics company directly monitors the entire process of the pledge loan business, and financial institutions do not participate. This model will help financing companies obtain funds more conveniently, help logistics companies improve their ability to monitor the entire process of pledged loan business, optimize the business processes and work links of pledged loans, and reduce loan risks [2].

## **3. Logistics Financial Risks**

### **3.1. Market and Environmental Risks**

Market risks mainly focus on the ability to maintain the value of inventory, including changes in market prices of goods, increases in competitive products, changes in liquidity caused by financial exchange rates, etc. Environmental risks generally include the applicability of relevant policies, the balance and stability of domestic and foreign economies, change-over in old and new policies, etc. Generally, my country's economic and political environment is relatively stable and less prone to risks. However, the international environment will have an impact on the logistics financial business due to changes in trade changes, exchange rate increases and other aspects [5].

### **3.2. Operational Risks**

Most logistics companies face risks to their operational capabilities. Since logistics companies whose main business is logistics business provide logistics financial services to financing enterprises, they need to go deep into their production and marketing supply chains to provide diversified services. Therefore, the scope of operations will be expanded, and the probability of risk occurrence will also increase [2]. For example, there are corresponding risks in everything from transportation and warehousing to dealings with financing platforms and contacts with financing companies.

### **3.3. Credit Risk**

Credit risk is the possibility that a borrower will default on a debt or bank loan due to failure to repay debts or bank loans in time and in full for various reasons. When a risk occurs, creditors or banks will inevitably bear financial losses because they fail to obtain expected returns. Due to the existence of information asymmetry, financing institutions, logistics companies and financing enterprises cannot fully understand each other's information, and there is a risk of concealment and false information. At the same time, there are also credit risks associated with the legality of the goods [5].

### **3.4. Human and Technical Risks**

Generally, the professionalism of risk management personnel does not meet the requirements for solving the problem or they fail to make the correct decision to deal with the problem, causing the problem to grow from a small one to a big one. In addition, the company's credit evaluation system

is not comprehensive or the evaluation system is not perfect enough, incomplete information caused by backward information technology and untimely communication may also easily cause deviations.

The main logistics financial risks can be summarized into the above four categories, as shown in Table 1.

**Table 1.** Main logistics financial risks

Market and environmental risks	Market risk pertains to environmental risks affecting the preservation of inventory value, which encompasses fluctuations in market prices for goods and risks arising from political, economic policies, and market conditions.
Operational risk	When providing logistics financial services, it is necessary to provide customers with diversified services, so the scope of operations is relatively expanded, and risks are also increased simultaneously.
Credit risk	Due to information asymmetry, financing platforms and logistics companies do not possess complete and accurate knowledge of each other's information related to financing enterprises, thereby creating risks associated with the withholding and dissemination of false information.
Personnel and technical risks	Risk management personnel lack experience and the company lacks corresponding technical support.

#### 4. Conclusion

In conclusion, this paper has reaffirmed the importance of logistics finance as a strategic tool for businesses in distress, underscoring its versatility and adaptability across various sectors of the economy. Through a nuanced examination of logistics finance, it has provided a comprehensive framework

for addressing business risks and fortifying the foundations of economic recovery. The findings of this study are poised to guide practitioners and decision-makers in this field, ultimately contributing to the continued success and resilience of logistics finance operations in our ever-evolving economic landscape.

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