

**INNOVATIVE SUPPLY CHAIN FINANCING TO PROMOTE JEWELRY
INDUSTRIAL TRANSFORMATION AND UPGRADING:**

A CASE STUDY ON THE HY JEWELRY COMPANY

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ABSTRACT

I entered the jewelry industry in 1994 and witnessed China's jewelry industry has been developing by leaps and bounds since the country's reform and opening up. Today, however, the jewelry market is facing increasingly fierce competition as it has gradually become saturated. As a result, it is urgent for jewelry companies to align their competition strategies and more importantly, to solve financing problems by expanding financing channels. Only in this way can they find policies and countermeasures to promote the sustainable development of the jewelry industry. While modern enterprises generally take supply chain finance into consideration when dealing with financing problems, this new financing method is not quite common in the jewelry industry. For this reason, there are currently few jewelry companies in the industry that can obtain financing through the supply chain finance method. Based on the relevant literature put forward by scholars in China and abroad, this paper presents an in-depth and comprehensive analysis of the characteristics of supply chain financing. At the same time, according to Porter (2012) Five Forces Model, this paper also analyzes the methods and solutions that HY jewelry Company adopts in formulating and implementing its competitive strategy for supply chain financing, with a view to promoting the healthy development of the jewelry industry.

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CHAPTER I

INTRODUCTION

1.1 Motives and Problems for the Study

1.1.1 Motives for the Study

Jewelry industry has existed since ancient times. As a traditional industry, it is full of vigor and vitality and enjoys bright prospects. Since China's reform and opening up, in particular, the jewelry industry has been developing by leaps and bounds, not only forming a complete industrial chain, but also witnessing the births of many globally renowned and influential brands. In fact, this market is gradually growing into maturity. As shown in Fig. 1.1, the size of China's jewelry market was RMB 295.7 billion in 2010, and this figure soared to RMB 737.2 billion in 2019 (Data source: Euromonitor, compiled by forward looking Industry Research Institute) . Compared with developed countries, China has relatively low per-capita jewelry consumption levels, which indicates that the country's jewelry market still enjoys brilliant prospects. According to China's jewelry market size in 2019 and the 2019 annual reports of 10 listed companies such as Chow Tai Fook, Lukfook and Lao Fengxiang, the average debt to sales ratio of listed jewelry companies in 2019 was 46%, and the lending market size of jewelry companies and jewelers was over RMB 330 billion, characterized by high turnover rate of short-term (15 days-2 months) loans. The market size and potential of this business are enormous.

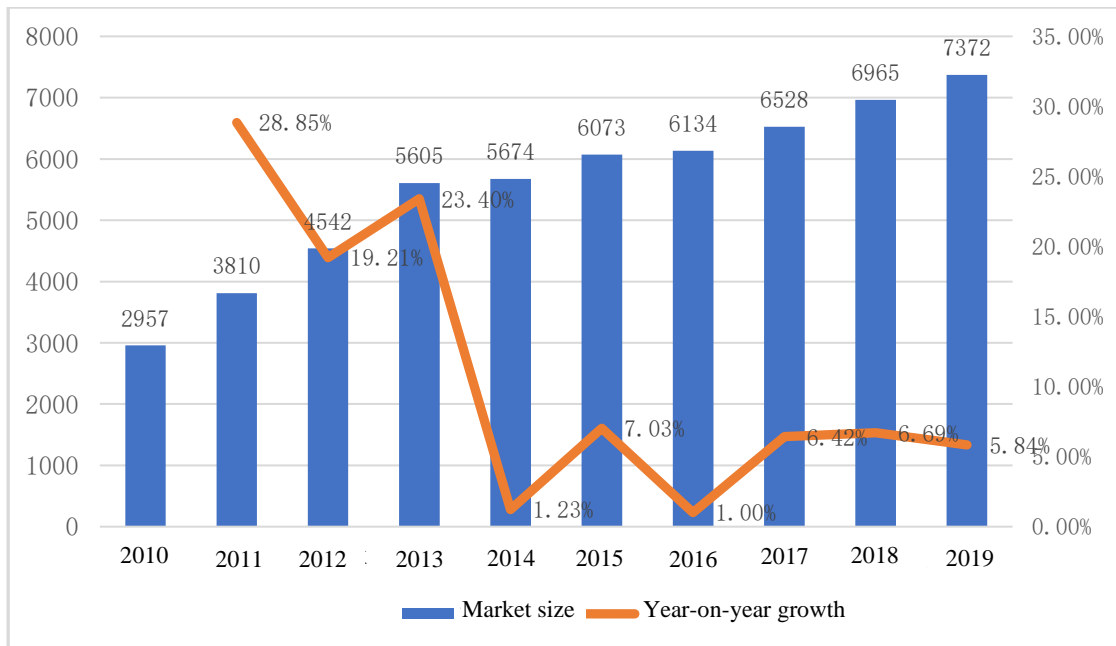


Fig. 1.1: Market Size and Growth of China's Jewelry Industry

Jewelry industry, as a typical heavy assets industry, sees higher raw-material costs than other industries. However, processing raw materials will bring an exceptionally remarkable added value. In addition, as a capital-intensive industry, the jewelry industry needs a considerable amount of funds to support its survival and development. As the global economy is entering its downward stage, the world's major economies have started to adjust their domestic economic structure. Stuck in a dilemma of being big yet not too strong at this point, China's jewelry industry has been perplexed by long-standing problems such as high financing costs and low added value. According to ShuShuo business(2020) relevant statistics, as of 2018, there were only 13 public traded companies in China with jewelry as their mainstream business, and the average net profit margin of these listed companies was less than 6%. The financial expense ratio of listed jewelry companies was 0.85% in 2013, but this figure climbed to 4.9% in 2018, showing that the financial expense ratio of listed jewelry companies has been rising sharply over time. Nevertheless the average net profit

margin is generally low and shows no upward trend, suggesting that China's jewelry companies remain stuck in a price war. In addition, Chinese jewelry companies think light of design and innovation, which accounts for the phenomenon of serious homogenization of products in China's jewelry market. To make things worse, due to a series of problems faced by jewelry companies such as financing difficulties and high financing costs, bank loans have become the main means for them to eke out a living. When jewelry companies are stuck in a vicious price war, high financing costs and low profit margins have become two problems hindering the sustainable development of the jewelry industry. With the rapid development of supply chain finance in the business world, China's jewelry industry has come to realize its importance, seeing it as a promising way to rescuing jewelry companies out of their financial difficulties.

1.1.2 Problems for the Study

Generally, most banks require gold jewelry companies to provide a collateral such as fixed assets when providing loans to them. According to the financial statements of gold jewelry companies, however, their main fixed assets are gold jewelry, and few of them have such assets as real estate and automobiles. By the traditional auditing standards of commercial banks, precious assets, such as gold jewelry, can seldom pass the auditing procedures and help jewelry companies to get bank loans, partly due to the drastic fluctuations in gold price in recent years. Most commercial banks do not recognize gold jewelry as a collateral for loans, which is the main reason why gold jewelry companies find financing so difficult. In addition, commercial banks are unwilling to work with jewelry companies since many of such companies, regardless of the size, have various cash flow problems in their development course. As a result, banks tend to put forward strict requirements for

jewelry companies when conducting credit audit, making it more difficult for them to obtain bank loans.

If jewelry companies can obtain funding through a supply chain finance based on raw materials, semi-finished products or finished products in the supply chain, on the one hand, it can, to a large extent, solve the financing problems in the development course of jewelry companies and realize the benefit of supply chain finance. On the other hand, it can also promote the transformation and upgrading of jewelry companies and help them to innovate and expand their market.

Compared with the traditional supply chain finance model, there are more items in the supply chain for jewelry companies to mortgage, including raw materials, semi-finished products and finished products. On the one hand, if they are facing great financial pressure in their business activities or even those that are facing losses, jewelry companies can provide collateral such as raw materials or finished products to commercial banks to obtain financing, which will, without doubt, help realize the transformation and upgrading of jewelry companies. On the other hand, jewelry companies can establish strategic partnerships with companies in the financial market by developing supply chain finance, which will, without doubt, help jewelry companies to rationally integrate their current industry resources, further expand their market, find policies and countermeasures to promote the sustainable development of the jewelry industry, and get them out of the embarrassing situation of having no collateral in their development course.

Due to the capital turnover requirements and market demand of the jewelry industry, HY Jewelry Company has established a supply chain financing program, which organically combined supply chain finance business and the jewelry business, and engaged in competition relying on the product differentiation strategy, opening up

a new market for itself. At the same time, HY Jewelry Company can organically combine the market focus strategy and the product differentiation strategy while marching towards the global market, and establish a supply chain-based jewelry lending system. If HY Jewelry Company can improve its liquidity in the capital-intensive industry, it will, without doubt, pave the way for the company to follow the international development route and further consolidate its position in China's market.

HY Jewelry Company's Supply Chain Finance Business, which is a subsidiary of HY Jewelry Company, will mainly provide supply chain financing services for Chinese jewelry companies, with a view to effectively solving the problems of financing difficulties and high financing costs and to basically meeting the capital needs of jewelry companies in their development course.

1.2 Contents and Methods

With the aid of Michael Porter's Five Forces Model, this paper analyzes the internal and external competition environments in which HY Jewelry Company carries out its supply chain finance business, focusing on a series of financial problems in its development course. At the same time, this paper has formulated a competitive strategy for supply chain finance business according to the principle of product positioning and the actual situation of the company, hoping to solve the financial problems in the development course of the company and to further expand its market.

1.2.1 Contents

The paper mainly includes the following parts:

Chapter I Introduction. This chapter summarizes and sorts out the idea and scheme of the study, and introduces the main contents of this paper in detail. On this basis, it also lists the innovations in the study.

Chapter II Theoretical Basis. Based on a series of research results on supply chain finance and competitive strategy put forward by scholars at home and abroad, this chapter fully analyzes and introduces the concept of competitive strategy, its analysis model as well as its target market selection.

Chapter III Analysis of the Internal and External Environments of HY Jewelry Company's Supply Chain Finance Business. Combined with Michael Porter's Five Forces Model, this chapter presents a detailed and comprehensive analysis of the competition environment in which HY Jewelry Company develops supply chain finance business, as well as a series of problems and advantages of HY Jewelry Company in developing supply chain finance business.

Chapter IV The Strategic Positioning of HY Jewelry Company's Supply Chain Finance Business in the Competition. This chapter focuses on the specific practices and guidelines of HY Jewelry Company in implementing its competitive strategy of carrying out supply chain finance business.

Chapter V The Guarantee for the Implementation of the Competitive Strategy of HY Jewelry Company's Supply Chain Finance Business. On the basis of a thorough understanding of the competitive strategy, it is necessary to formulate a guarantee mechanism from various angles, so as to ensure that all measures of the competitive strategy of supply chain finance business can be smoothly implemented.

Chapter VI Conclusion and Outlook. After summarizing and sorting out the contents of the study, this chapter puts forward a new direction for the jewelry industry to study the competitive strategy of supply chain finance business in the future.

1.2.2 Methods

The following methods are mainly adopted in the study: 1. The literature

research method: it refers to consulting the literature materials related to competitive strategy and supply chain finance business in libraries and databases, and summarizing and sorting out these literature materials so that they will serve as an important theoretical basis for the analysis of the follow-up topics and form a complete theoretical system. 2. The technical analysis method: according to Michael Porter's Five Forces Model, it focuses on analyzing the competition environment of HY Jewelry Company in developing supply chain finance business, as well as its advantages and disadvantages. 3. The system analysis method: it systematically analyzes the industry environment, competitors and development status of HY Jewelry Company when carrying out supply chain finance business for readers to gain a full understanding of the business development of the company.

1.2.3 Philosophy

Based on the contents and methods of the study, the philosophy has been obtained, as shown in Fig. 1.2

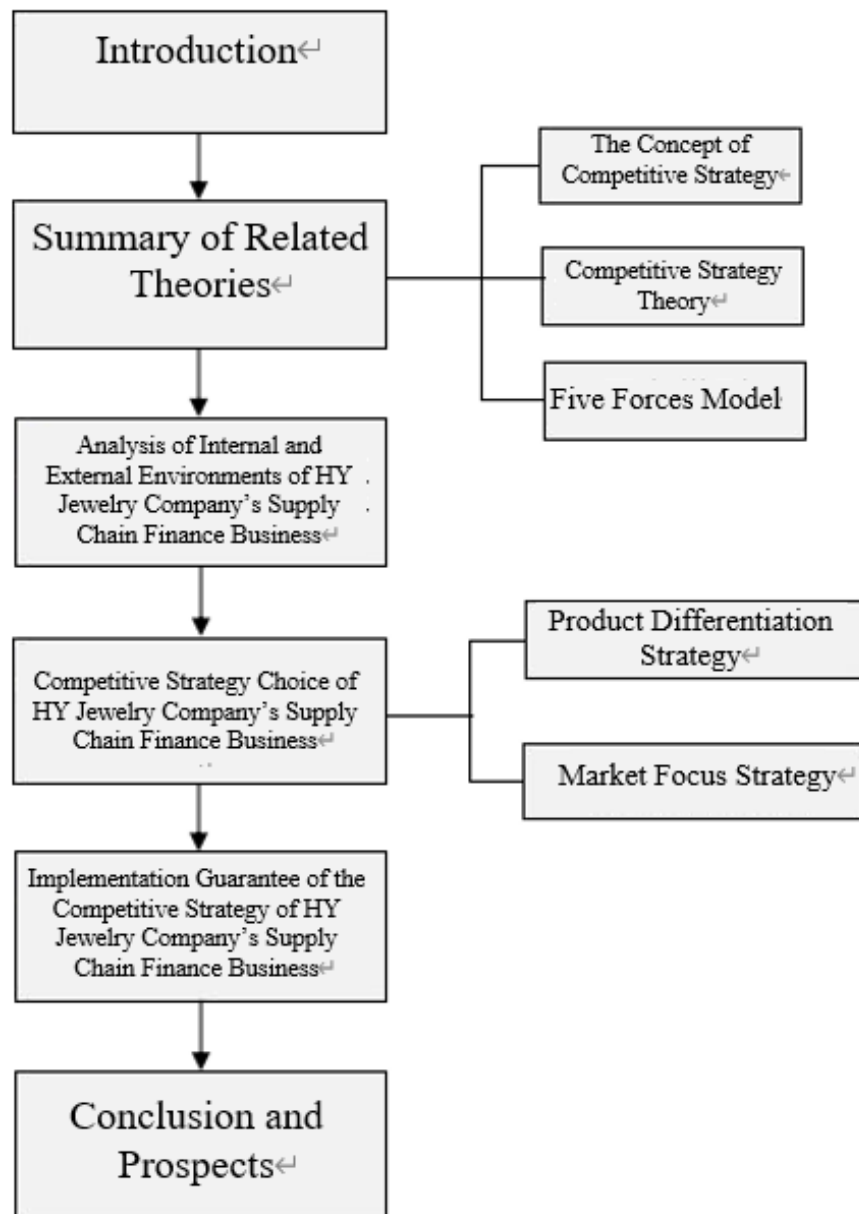


Fig. 1.2 Roadmap of the Study

1.2.4 What's New in the paper

HY Jewelry Company will mainly adopt the product differentiation strategy and implement the competitive strategy in combination with its supply chain finance business. Implementing the product differentiation strategy and the market focus strategy will be more conducive to the company's competition in the market due to the following innovations:

1. It is of strong theoretical and practical value. Further analysis of HY Jewelry Company's supply chain finance business will provide important theoretical guidance for the company to implement the competitive strategy and promote the healthy development of its supply chain finance business.

2. The topic is novel. The paper has an exceptionally novel foothold as it organically combines the in-depth analysis of supply chain finance business and the implementation of the competitive strategy in the jewelry industry.

CHAPTER II

LITERATURE REVIEW

2.1 Concept of Supply Chain Finance

Supply chain finance mainly includes supply chain and finance, which shows that supply chain finance has not only financial attributes, but also industrial attributes. Therefore, scholars and entrepreneurs give different explanations in the understanding of the concept. Wang and Li (2015) hold that if supply chain finance focuses on finance, it proves that the ultimate purpose of supply chain business is finance, and supply chain is used as a tool in order to realize finance, and that supply chain finance is, therefore, regarded as a new tool for commercial banks to provide loans. If supply chain finance focuses on industry, it proves that the ultimate purpose of supply chain business is supply chain, and finance is used as a means to realize supply chain. For example, supply chain finance is used to sort out capital flow, logistics and information flow, which will, without doubt, improve the management efficiency of the entire supply chain.

The concept of supply chain finance put forward by Berger and Udell (2004) aims to solve the financing problems of small- and medium-sized enterprises (SMEs), and it provides a new framework for SMEs to obtain financing. E (2005) found in their study that supply chain finance involves knowledge of multiple disciplines, including finance, supply chain management, logistics, etc. External service providers in the supply chain will use these resources to create greater value by reasonably integrating the financial resources in the supply chain in a certain planning or control way. TowerGroup believes that supply chain finance is a transaction carried out based on supply chain, which generates greater commercial value and can solve the financial problems of upstream and downstream enterprises in the process of transaction. Yang

(2005) argues that supply chain finance effectively integrates capital flow based on the means of supply chain management, which not only effectively solves the financial problems of partnering enterprises in the supply chain, but also provides a new way for vulnerable enterprises in the supply chain to obtain funds. Wang (2007) believes that supply chain finance is a financial model carried out based on the entire supply chain. Under this model, commercial banks will see the supply chain as a whole and launch comprehensive credit for all enterprises in the supply chain. The special financing scheme, which will help solve the financial problems of related enterprises in the supply chain, is a more flexible financing model compared with traditional financing schemes. Hu (2007) analyzed the connotation of supply chain finance from the perspective of real economy, arguing that supply chain finance is a financing model that commercial banks launch to solve the financial problems of upstream and downstream enterprises in the supply chain, relying on the credit level of core enterprises and the real trade of the supply chain. Supply chain finance itself is a kind of financing model put forward in combination with short-term financial products of banks, and its direct repayment comes from the future cash flow of enterprises' trade behavior in the supply chain.

At present, Chinese scholars have intensively and comprehensively analyzed the supply chain finance model from two angles, namely, business and organization. Ren (2008) was the first to put forward the concept of material bank. He argues that in the secured financing business of commercial banks, the problem that borrowers lack collateral can be solved by means of chattel pledge, which will, without doubt, further promote the development of financing business of commercial banks. Zhu (2002) put forward the concept of FTW (Finance, Transportation and Warehouse), providing an important theoretical reference for scholars to further analyze the concept and

connotation of supply chain finance. Yan (2007) thoroughly studied and understood the concept of supply chain finance, and then put forward three basic financing models of supply chain finance, namely, accounts receivable, inventory and prepayments. Afterwards when Xie and He (2013) studied supply chain finance, they put forward many other valuable results for reference. For example, they divided supply chain financialization into three financing models, namely, logistics enterprise-led, commercial bank service, and enterprise group cooperation.

2.2 Concept of Competitive Strategy

For a company, the focus of development and competition lies in its competitive strategy. By the hierarchical standard, competitive strategy can be divided into four types: formal competition at the lowest level, which mainly refers to the competition of the same kind of products to meet the same needs of consumers; category competition at the second level, which mainly involves products or services; generic competition at the third level, especially generic competition among enterprises at a higher level which is no longer limited to products or services as a result of the appearance of substitute competition; budget competition at the highest level, which is the competition launched based on consumers, that is, enterprises improve their competitiveness by meeting the needs of consumers to the maximum degree. While analyzing an enterprise's competitive strategy, it is necessary to make an in-depth analysis from three angles, namely, competitors, target markets and products. Only in this way can they formulate a scientific and workable competitive plan, help listed companies occupy a larger market share and remain invincible in the market.

Michael Porter once mentioned the concept of competitive strategy, and his competitive strategy was mainly divided into three types: 1. Cost leadership strategy:

in the entire industry, enterprises should establish competitive advantages by implementing the overall cost leadership strategy; 2. Product differentiation strategy: differentiated products or services help enterprises to win the favor of consumers so that enterprises can gain a firm foothold in the market; 3. Market focus strategy: enterprises should take advantage of their own advantages and strengths and implement the differentiation focus strategy in market segments, so as to give full play to their advantages and stay clear of their disadvantages. These competitive strategies will be analyzed in depth below.

2.3 Cost Leadership Strategy

The overall cost leadership strategy highlights that enterprises should reduce the cost of their products or services from various channels. At this point, the prices of products or services launched by enterprises in the market will be far lower than those of competitors, and enterprises will be able to cope with the challenges of competitors more confidently, and even prevent newcomers from entering the industry because of the implementation of the cost leading strategy. However, not all enterprises can successfully implement the overall cost leadership strategy. Enterprises must have continuous capital investment and financing channels, advanced production technology and engineering technology, innovative and creative ability, low-cost distribution system, product design that can be implemented in the manufacturing process, etc. Therefore, modern enterprises must establish a strict and perfect cost control system and organizational structure to strictly control the existing costs. Engaged in the supply chain finance business for a short time, HY Jewelry Company has not yet developed a scientific and reasonable internal mechanism and organizational structure. Therefore, the overall cost leadership strategy is not suitable for the company.

2.4 Differentiation Strategy

The differentiation strategy mainly refers to a strategy adopted by an enterprise to introduce to the market products or services that are different from competitors, so that customers can effectively distinguish the enterprise from competitors. And having differentiated products or services that can meet their special needs is the premise for modern enterprises to use the differentiation strategy. Having differentiated products or services can not only help the enterprise to occupy a monopoly position in market segments, but also further improve the core competitiveness of their products or services in the market, thus enjoying brilliant development prospects. Consumers tend to be impressed by differentiated products or services and become loyal to the enterprise because of these products or services, and will no longer be price-sensitive to the products or services of the enterprise. Therefore, HY Jewelry Company will mainly serve jewelers and jewelry companies while carrying out jewelry supply chain finance business in the future. It is, therefore, necessary to introduce differentiated supply chain financial products to the market according to the specific needs of jewelers and jewelry companies. It can be seen that in order to implement the differentiation strategy, HY Jewelry Company must have strong abilities in marketing, innovation, product design, quality control, basic research and close collaboration. HY Jewelry Company must also establish a strict and perfect organizational structure. Besides the ability to conduct product R&D and marketing, all departments need to strengthen cooperation and coordination and create a good organizational atmosphere. Only in this way can HY Jewelry Company attract more creative talent and improve its abilities in marketing, innovation and close collaboration.

2.5 Focus Strategy

The focus strategy mainly means that enterprises will launch professional products or services in market segments to win the favor of special customer groups. In order to successfully implement the focus strategy, enterprises must introduce products that competitors do not have in market segments, and these products cannot be substituted, for, any products that can be substituted are not qualified for this strategy. HY Jewelry Company must be able to launch competitive and irreplaceable supply chain financial products or services in a specific market dealing with special customers such as jewelers and jewelry companies, so as to meet the needs of these special customers in a targeted manner.

2.6 Competitive Strategy Theory Based on Industrial Choice

Scholars at home and abroad have made many research achievements in strategic management, focusing on the correlation between company performance and industry environment. In addition, scholars have found that the enterprise's operating results generally depend mainly on the industry environment in which the enterprise operates. It can be seen that the managers of modern enterprises must first fully understand the industry environment and internal environment in which the enterprises operates, and only on this basis can they choose proper corporate strategies. Bain and Mason mentioned the industrial organization theory while studying the strategic management theory. According to the industrial organization theory, industry environment and market environment are crucial to the development of the organization. But in fact, if there are problems existing in the company's organizational structure or management, it will also affect the strategic management of the enterprise. Thus, the industrial organization theory still faces many limitations when enterprises choose competitive strategies.

2.6.1 Basic Competitiveness Model

According to the competitive strategy theory put forward by Prof. Michael Porter, the management and choice of an enterprise are affected by two factors at the same time. Therefore, he put forward Porter's Competitiveness Model, which conducts an in-depth and comprehensive analysis of the competitiveness of the enterprise from two aspects, namely, industrial structure and market environment. Porter's Competitiveness Model is also known as "Five Forces Model", which holds that the competitiveness of an enterprise mainly comes from five aspects: suppliers, buyers, competitors, substitutes and potential comers. According to the Competitiveness Model of Prof. Michael Porter, the competitive strategy of an enterprise is mainly divided into three types, namely, cost competitive strategy, product competitive strategy and market competitive strategy. In business activities, most enterprises will choose one of the above three competitive strategies as their main competitive strategy according to their internal resources and external environment. Only a few enterprises will choose to rationally integrate the above three competitive strategies and implement a comprehensive competitive strategy according to the actual situation after successfully implementing one of the competitive strategies.

2.6.2 Competitors Theoretical Analysis Model

Prof. Michael Porter believes that modern enterprises must pay enough attention to the analysis of competitors and select proper competitive strategies based on the analysis results. The professor also put forward a competitor's theoretical model. First, the method of identifying and analyzing competitors is mentioned in the model. Second, the method of accurately understanding the competitors' intentions is mentioned in the model. Third, the model mentions the competitive strategy that the

enterprise should adopt after fully understanding the competitors.

2.6.3 Strategic Group Analysis Model

Prof. Michael Porter believes that not only competitors and industrial structure which will affect the competitive strategy that an enterprise chooses, but also the competitive strategy that an enterprise chooses will also be affected strategic groups. Later, the professor put forward the strategic groups analysis model, in which the entry barrier in Five Forces Model was replaced by the flow barrier, providing a new idea for scholars to further study the competitive strategy of enterprises.

2.6.4 Michael Porter's Five Forces Model

The five major competitive factors in Five Forces Model is shown in the following figure. Many researchers and industrialists have conducted in-depth analysis of the model, which has had a profound impact on all walks of life in choosing competitive strategies. For this reason, Prof. Michael Porter is hailed as the father of competitive strategies. By establishing the model, modern enterprises can analyze their competitive position in the industry, find their advantages and disadvantages in the competitive environment and on this basis, formulate competitive strategies according to the actual situation.

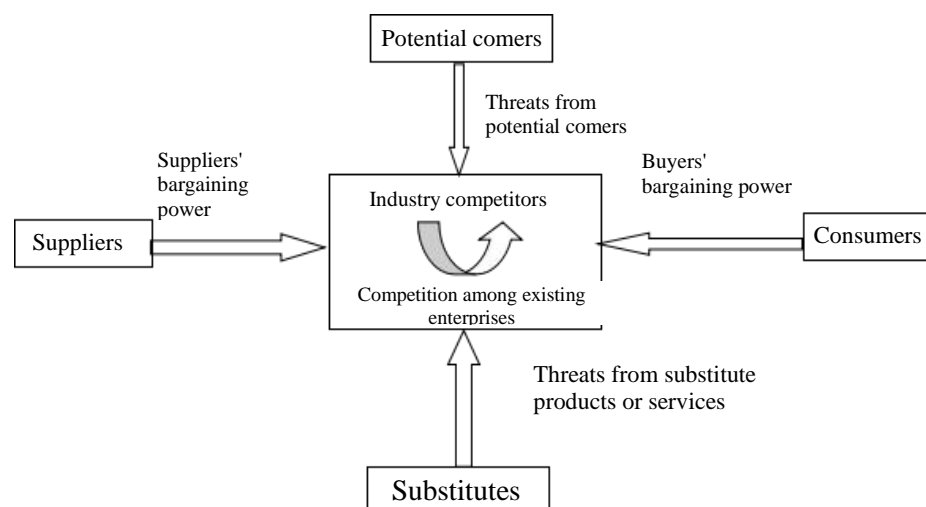


Fig. 2.1 Michael Porter's Five Forces Model

CHAPTER III

ANALYSIS OF THE INTERNAL AND EXTERNAL ENVIRONMENTS OF HY JEWELRY COMPANY'S SUPPLY CHAIN FINANCE BUSINESS

3.1 Analysis of the External Environment of HY Jewelry Company's Supply Chain Finance Business

3.1.1 Political Environment

HY Jewelry Company is often affected by the external political environment in its development course, such as various laws, regulations and policies formulated by the state for jewelry industry and supply chain finance, as well as the international status and influence of China's jewelry industry which has a far-reaching impact on HY Jewelry Company's supply chain finance business. In 2015, the Central Bank and the China Banking Regulatory Commission (CBRC) successively issued the guiding opinions on promoting the healthy development of China's Internet finance, marking that the Chinese government attaches great importance to peer-to-peer lending. Since then, the CBRC has also issued regulations on daily regulation of peer-to-peer financial lending by local governments. This is because the Central Bank alone is unable to conduct overall regulation on peer-to-peer lending, but needs to strengthen the daily regulation of peer-to-peer lending with the help of local governments. Only when local governments have a strong management ability and grasps the characteristics and attributes of peer-to-peer lending, can they really strengthen the regulation of peer-to-peer lending. HY Jewelry Company will be deeply affected by relevant government policies and legal compliance while carrying out its supply chain finance business.

According to the express stipulation of China's *Civil Code* on the contract for intermediation, HY Jewelry Company only needs to draft up a supply chain financial

contract in accordance with the provisions of the *Civil Code*, then both the borrower and the lender can establish a legally effective loan relationship according to the provisions of the contract, and neither party shall violate the contract for no reason. Otherwise, it shall be subject to legal sanctions. After establishing the supply chain financial platform, HY Jewelry Company requires jewelers to obtain loans using jewelry as collateral, which is also highly in line with the provisions in the relevant laws on lending in China. HY Jewelry Company can obtain remuneration from the borrower as a fund supplier and use the fund for the normal operation of the lending platform.

After establishing the supply chain financial business platform, HY Jewelry Company can set the loan interest rate according to relevant laws. As long as the interest rate of its loan products is within the range of the laws and the regulations of the Central Bank on interest rate, the loan contract issued in the supply chain finance business platform shall have legal effect.

With the rapid development of e-commerce, according to the provisions of China's *Civil Code*, electronic contracts are also legal. Business parties can communicate and sign electronic contracts over the Internet. Once signed, electronic contracts shall also have legal effect. On the one hand, signing an electronic contract over the Internet has broken the space and distance barrier, enabling both the borrower and the lender to establish a loan relationship over the Internet, and the loan business will be handled more efficiently. On the other hand, it can promote the development of supply chain finance business.

3.1.2 Economic Environment

Under the background of China's rapid socio-economic development, all enterprises, whether large, medium or small, have experienced financial problems in

their development course, especially in the jewelry industry. Traditional financing channels alone can no longer solve their financial problems, thus generating an increasing demand for supply chain finance business. In addition, compared with other industries, the jewelry industry sees higher prices of raw materials, which requires jewelry companies to invest considerably in the early stage of development. Once there appears a problem with the capital chain, many jewelry companies will end up bankrupt. It can be seen that there is a large gap in fund in the jewelry industry, and bank loans alone are insufficient to help jewelry companies to obtain funds within a short period of time to fill up the gap. In particular, bank loans generally require jewelry companies to provide vehicles or real estate as collateral. For this reason, most jewelers cannot obtain loans from commercial banks, which, without doubt, deals a heavy blow to the subsequent healthy and sustainable development of jewelers. In fact, many jewelers end up bankrupt because they cannot obtain loans from banks. Because of the sluggish development trend of the entire jewelry industry, many investors have specially provided lending platforms for these SMEs that cannot obtain loans from banks. According to Annual report of China's online lending industry (2019) , peer-to-peer lending has been developing more and more rapidly in China. In 2019, the loan amount of 517 peer-to-peer lending platforms was about RMB 10 million, accounting for 29.36% of peer-to-peer lending platforms. There were 785 peer-to-peer lending platforms whose loan amounts stood between RMB 10 million and RMB 100 million, accounting for 44.58% of peer-to-peer lending platforms. The loan amounts of 337 peer-to-peer lending platforms ranged from RMB 100 million to RMB 500 million, accounting for 19.14% of peer-to-peer lending platforms. There were 63 peer-to-peer lending platforms whose loan amounts stood between RMB 500 million and 1 billion, accounting for 3.58% of peer-to-peer lending platforms. The

loan amounts of 44 peer-to-peer lending platforms ranged from RMB 1 billion to RMB 3 billion, accounting for 2.49% of peer-to-peer lending platforms. There were 15 peer-to-peer lending platforms whose loan amounts exceeded RMB 3 billion, accounting for 0.85% of peer-to-peer lending platforms. According to the above data, 73.94% of the turnover of peer-to-peer lending platforms was less than 100 million yuan. At present, peer-to-peer lending platforms mainly adopt two operation models. One is the traditional omni-directional online transaction model, in which both the borrower and the lender will directly complete the whole process of lending over the Internet, including fund allocation and late-stage repayment. The other is the new channel model, in which both the borrower and the lender only rely on the Internet platform to find partners. After the establishment of the loan relationship, both parties will complete the loan activities offline, including fund allocation and late-stage repayment. Compared with traditional lending, there are still many limitations in the management and theoretical knowledge of peer-to-peer lending. Therefore, lending products launched on peer-to-peer lending platforms generally cannot solve the financial problems of jewelers in the course of operation. In addition, its interest rate is far higher than that of traditional lending. As a result, many jewelers are unwilling to accept peer-to-peer lending due to its higher financing costs.

3.1.3 HY Jewelry Company's Supply Chain Finance Platform

The supply chain finance platform established by HY Jewelry Company will mainly serve jewelers, and provide financing services for jewelers' business activities based on their jewelry products which serve as collateral. The collateral in the supply chain finance platform is different from that of commercial banks. But when the jewelry supply chain finance platform serves jewelers and jewelry companies and carries out supply chain finance business, commercial banks also begin to pay

attention to this business, hoping to gain a firm foothold in peer-to-peer lending. Compared with the supply chain financial platform established by jewelry companies, commercial banks have plenty of superior resources in lending business, and their professional and process advantages are far better than HY Jewelry Company. Commercial banks mainly put forward three peer-to-peer lending service models: first, they mainly provide financial services to online banking users, which enables their users to directly borrow money online; Second, commercial banks have specially established online loan trading platforms, and relevant bank staff can directly review the loan applications submitted by users online and provide online loan services; Third, commercial banks will set up third-party network platforms, which will mainly serve SMEs and solve the financial problems in their production and operation activities. After entering the field of peer-to-peer lending, commercial banks are unwilling to share user information for the purpose of protecting trade secrets, which greatly reduces the transaction volume on peer-to-peer lending platforms and is not conducive to the development of peer-to-peer lending. Considering the problems existing in commercial banks' business in peer-to-peer lending, HY Jewelry Company has specially established a supply chain finance platform which mainly provides loan services for jewelry companies and jewelers. Jewelers and jewelry companies only need to take jewelry products as collateral, and they can use the supply chain finance platform established by HY Jewelry Company to obtain loans. On the one hand, it can give fully play to its advantages in the jewelry industry and further expand the market; on the other hand, it can further reduce the impact after commercial banks enter the field of peer-to-peer lending platforms.

3.1.4 Technology Environment

In the current Internet era, information technology has become the only way to

lead the development of the era. Under the background of global economic integration, the Internet has brought both opportunities and challenges to the development of each industry. With the deep integration and development of the financial industry and the Internet, network supply chain finance has come into being and Internet technology has become increasingly powerful. With the rapid development of traditional P2P lending business, more and more enterprises have begun to build supply chain finance operation platforms on the Internet, hoping to win more target customers and collect more customer resources.

Relying on network technology, HY Jewelry Company can find more customer resources on the Internet, remove the time and geographical restrictions, develop supply chain financial services in a broader market, and solve the financial problems existing in the development course of jewelry companies and suppliers. At the same time, HY Jewelry Company can realize the comprehensive sharing of user resources and customer information through the Internet brand, and further increase the trading volume of jewelry companies in peer-to-peer lending. With the aid of the transaction data in the network platform, HY Jewelry Company can conduct statistical analysis on these data, understand the customer needs in the target market, and adjust the business according to the actual situation, so as to better meet the customer needs. In the current high-tech era, in particular, the grade appraisal of jewelry can be completed in a short time, which will, without doubt, help jewelry companies to carry out supply chain finance business.

3.1.5 Industry Environment

3.1.5.1 Industry Profitability

Profitability mainly refers to the ability of an industry or business to gain profits, while industry profitability mainly refers to the overall profitability of a

specific industry. Enterprise profitability mainly refers to the enterprise's ability to gain profits through operation and management in production and operation activities. Generally, industry profitability directly determines the development potential of an industry. Therefore, when judging and evaluating a new industry, modern enterprises will accurately evaluate the profitability of the industry. At present, when evaluating the profitability of the industry, the most common indicators include return on total assets and return on net assets, which will be analyzed in detail below.

I. Return on Total Assets (ROA)

The Return on total assets (ROA) mainly refers to the ratio of asset returns to total assets, and the profitability of an enterprise is often closely related to its return on total assets. Generally speaking, ROA is used as a common indicator to evaluate the profitability of an enterprise. In the field of accounting, the two indicators, namely, return on net assets and ROA, are often combined for comprehensive analysis. The return on net assets is mainly used to evaluate the asset utilization efficiency of an enterprise, while the ROA is mainly used to evaluate the profitability of an enterprise in the actual production activities. As far as the development of an enterprise is concerned, the higher the ROA is, the better it proves that the enterprise enjoy brilliant development prospects. The ROA can also be used to accurately evaluate the overall management ability, capital utilization efficiency, profit stability and durability, and capital utilization effect of an enterprise.

Generally speaking, the loan yield of ordinary small loan companies is about 10% after the deduction of taxes and fees, and its ROA is less than 3%. HY Jewelry Company will take jewelers and jewelry companies as its main target customers, and short-term loans ranging from 15 days to 6 months as its main products. The loan interest rate and ROA for HY Jewelry Company to carry out supply chain finance

business are shown below in Table 3.1. From the data in the table, most of the loan interest rates are around 10%~12%, while most of the ROA around 3%~8%. The loan term is negatively correlated with the ROA, that is to say, the longer the loan term is, the slower the turnover of HY Jewelry Company's finance business will be, and the less profit will be generated.

*Table 3.1 2018-2019
Loan Interest Rate and Total Assets Income Statement of HY Jewelry Company's Supply Chain Finance Business.*

Term and Type of the Target	Annual Interest Rate	ROA
15 days	10%	8%
Within one month (included)	11%	8%
45 days	11.2%	7%
2 months	11.6%	4%
3 months	12%	4%
4 months	12.2%	4%
5 months	12.6%	3%
6 months	13%	3%

II. Return on Equity (ROE)

The return on equity (ROE), too, can be used to evaluate the profitability of an enterprise, which mainly refers to the net profit divided by equity. The annual interest rate and the actual rate of return for HY Jewelry Company's supply chain finance business are shown below in Table 3.2. It can be seen that most of its annual interest rates are around 10%~13%, while most of its actual rates of return around 8%~18%, and that the shorter the term, the lower the annual interest rate and the higher the rate of return.

*Table 3.2 2018-2019
Comparison of Annual Interest Rate and Actual Rate of Return for HY Jewelry Company's Supply Chain Finance Business.*

Term and Type of the Target	Annual Interest Rate	ROE
15 days	10%	18%
Within one month (included)	11%	15%
45 days	11.2%	15%
2 months	11.6%	13%
3 months	12%	13%

4 months	12.2%	10%
5 months	12.6%	10%
6 months	13%	8%

In the supply chain finance business, customers need to provide jewelry products as collateral to obtain loans from the supply chain finance platform. HY Jewelry Company should immediately return the collateral to customers after they pay off all the loans and interest. HY Jewelry Company provides loan services to customers based on the supply chain finance platform, and charges a certain service fee in return. If customers fail to repay the loan and interest on schedule, HY Jewelry Company has the right to dispose of the collateral according to the loan contract and recover the funds by disposing of the collateral. Disposal of collateral plays an important role in supply chain finance business. Only by ensuring that collateral can be disposed of reasonably and quickly, can jewelry supply chain finance business be carried out smoothly, and can jewelry companies have sufficient funds to turn around and gain profits in supply chain finance business.

3.1.5.2 The Room for Improvement for Added Value

When studying marketing theory, Peter F. Drucker put forward the concept of added value. He believed that there would be differences between the value of raw materials and the value of finished products in the process of production and sales, and this difference was the added value of products. The added value of products can be obtained in the processes of production, processing and marketing.

While carrying out supply chain finance business, HY Jewelry Company generally provides preferential services to the customer who has paid loans and interest on schedule, and the customer can also apply for two financing businesses at the same time. In addition, HY Jewelry Co., Ltd. specially implements the membership system while carrying out supply chain finance business. The higher the

membership level, the longer the loan period that members can apply for, and the lower the loan interest rate. In addition, the company specially provides VIP exclusive services for members.

Through its membership system, HY Jewelry Company brings more customer resources to the company's jewelry supply chain finance business. At the same time, it encourages customers to treat loan contracts correctly and fulfill their repayment obligations on schedule. HY Jewelry Company obtains membership fees by implementing the membership system, and even attracts more members by providing exclusive VIP services and preferential loan services to its members. Membership system not only brings more customer resources to the company, but also enhances the company's popularity and influence in the entire industry, which is conducive to promoting the long-term sustainable development of the supply chain finance business of jewelry companies.

3.1.5.3 Entry Barriers and Exit Mechanism

In every industry, newcomers will encounter barriers when entering the industry, and they will also pose threats to the original competitors in the industry. The barriers are a challenge that every industry competitor must accept when entering a new industry.

While carrying out jewelry supply chain finance business, newcomers will encounter barriers such as economy of scale, capital injection, customer loyalty and product differences.

Economy of scale. Expanding the production scale of an enterprise often brings scale advantages to its subsequent production and operation activities, and can realize the rational utilization and distribution of existing resources and further reduce the unit cost. The enterprise can rationally integrate existing internal resources and

external resources and on this basis, rationally expand its production scale, so as to obtain the economy of scale and gain more considerable profits. While carrying out supply chain finance business, HY Jewelry Company organically combines overseas mortgage disposal business with jewelry supply chain finance business, and further expands its production scale through the Five Forces Model. At the same time, it has won a large number of loyal customers for the company and reduced the unit cost of products.

Capital injection. HY Jewelry Company regards supply chain finance business as its main business. This does not mean that the company needs to set up a new department or company, but needs to invest a large amount of capital to facilitate the smooth development of the supply chain finance business. In order to establish the risk margin and risk pool to promote the smooth development of supply chain finance business, HY Jewelry Company provides the capital to carry out this new business. At the same time, in order to achieve long-term sustainable development of supply chain finance business, it is necessary to fully guarantee the amount of input and its stability. Therefore, HY Jewelry Company must have a very strong capital base while carrying out supply chain finance business. And the company's circulating capital mainly comes from financing and borrowing, which proves that the company will be highly dependent on the third party's capital while carrying out supply chain finance business, which also leads to many capital risks at the same time.

Customer loyalty. If customers are loyal to the products or brands of an enterprise, they will choose the products or services of the enterprise from among numerous products in the market, and recommend the products or services to their relatives and friends. On the one hand, the customer's choice will determine their loyalty to the enterprise's products; on the other hand, the quality and advantages of

the enterprise's financial lending products will also determine the customer's loyalty. Jewelry companies and jewelers are the main customer groups of HY Jewelry Company in carrying out jewelry supply chain finance business. Jewelry companies and jewelers will obtain loans through bare stones and rough stones as collateral. At the same time, they will obtain profits by purchasing, producing, processing and selling these raw materials. From the perspective of the entire jewelry industry, HY Jewelry Company is an exceptionally powerful enterprise that has been operating in the industry for 10 years, and has established long-term cooperation with jewelers and jewelry companies. These customers have become loyal to HY Jewelry Company.

Product difference. Product difference mainly refers to the essential difference between the products launched by an enterprise in the market and those of competitors. With the rapid development of Internet finance, there are a large number of small loan companies in the market, and these small loan companies generally request jewelers or jewelry companies to provide houses or vehicles as collateral for loans. Moreover, the loans are of low amount and high interest rate, which generally cannot meet the financial requirements of jewelers or jewelry companies. HY Jewelry Company provides customers with a new supply chain finance model based on the capital requirements of jewelry companies or jewelers, instead of cumbersome procedures for mortgage of real estate, thus directly providing customers with high loans according to their credit rating. This innovative product has attracted extensive attention from the market and become a pioneer in finance in jewelry industry.

3.1.5.4 Indicators of Competition Intensity

The bargaining power of suppliers and consumers also has a major impact on the development of an enterprise. If the bargaining power of suppliers and consumers is strong, the enterprise can only be passively at the mercy of suppliers and consumers,

which will inevitably lead the enterprise to a passive position in its business activities, and even results in loss of interests. HY Jewelry Company has established the Five-Party Model and carried out backward integrated supply chain finance business, which has eliminated the risk of suppliers to carry out supply chain finance business for jewelry companies. Jewelers and jewelry companies can obtain loans only by using jewelry as collateral, and this innovative lending product can, without doubt, fully meet the jewelers' lending needs, which also makes jewelers or jewelry companies more dependent on the supply chain finance products launched by HY Jewelry Company, and consumers will not have high bargaining power at this time. The price and profit margin of jewelry will mainly depend on the national conditions, output and political situation of the origin, and the selling price of jewelry will also mainly depend on the prices of foreign raw materials. In order to strictly control the jewelry financial products, HY Jewelry Company generally needs to invest a large sum of money to buy raw materials, especially after the decline in the prices of raw materials. Only in this way, can the company further enhance its profit margin.

3.1.5.5 Analysis of Competitors

The common financing methods of jewelry companies are equity financing and debt financing, which are compared in Table 3.3 below.

Financing method	Overall evaluation	Operation	Advantages	Disadvantage
Equity financing	Advantages: When a company needs a large amount of money (e.g., for merger and acquisition), equity financing stands out with obvious advantages, as it does not require regular interest and principal payments like debt financing, but only requires the payment of dividends to shareholders	Absorbing direct equity	Financing procedures are relatively simple and inexpensive.	The degree of satisfaction of the target funds is not high, the control rights of shareholders may be affected.
		Issuance of	Higher degree of satisfaction	The procedures are

	when the company earns a profit. Disadvantages: On the one hand, equity financing operations, such as issuing shares, are subject to strict government approval; on the other hand, from the perspective of companies, since the equity is not refundable, it will burden the company with the cost of capital in the long run, and the shares are susceptible to malicious takeover, resulting in a change of control. Moreover, the cost of equity financing is also high.	common stock	of target funds	complicated, higher requirements are proposed for the company, and the equity will be diluted.
		Issuance of preferred shares	A large amount of capital inflow can be attracted, with a high degree of financial security for the target funds.	It has a certain impact on the performance of the company, and often comes with requirements on performance, return rate, etc.
Debt financing	Advantages: 1. Faster funding. Compared with equity financing, debt financing operations, such as bank loans, financial leasing, etc., are not subject to complicated approval procedures and securities issuance procedures, and can quickly acquire funds. 2. High flexibility. With debt financing, companies can flexibly negotiate the terms of debt, control the amount of financing, and arrange the schedule for receiving funds according to their business and financial situation. 3. Stable control. As creditors have no right to participate in the operation and management of companies, debt financing will not change and disperse the shareholders' control. Disadvantages: 1. It cannot help	Bank borrowing	Low cost and high flexibility.	Highly influenced by policies, more restrictive conditions, and limited amount of financing.
		Issuance of ordinary bonds	Controllable amount of financing	Higher cost and more complicated procedures.
		Financial lease	Fast financing and less restrictive conditions; reduced risk of obsolescence of equipment; as the rent can be shared throughout the lease term, the burden of payment can be appropriately reduced; the rent can be	High cost of capital; regular rent payment forms a heavier burden; no entitlement to salvage value of equipment

	<p>companies form a stable capital base. Debt capital has a fixed maturity date, needs to be repaid when due, and can only be used as a supplementary source of capital for companies. Additional debt often requires credit rating, and it is often difficult for companies and start-ups without a credit foundation to obtain sufficient debt capital. After the existing debt capital reaches a certain percentage in the capital structure of a company, it is often difficult to obtain new debt funds due to elevated financial risks.</p> <p>2. High financial risk. Debt capital has a fixed maturity date and a fixed interest burden. There may be special restrictions on the use of debt capital obtained by means of mortgages, pledges and other guarantees. All these require companies to have a certain solvency and to maintain the liquidity of assets and the level of return on assets as a guarantee for debt repayment. Higher requirements are put forward on the financial status of companies. Lack of liquidity will bring financial crisis to companies and even lead to bankruptcy.</p> <p>3. Limited amount of financing. The amount of debt financing is often constrained by the capital strength of the lender. It is impossible to raise a large</p>		<p>deducted before income tax, so that the tax burden is light.</p>	
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	amount of funds at one time like issuing bonds and stocks. Therefore, it cannot meet the needs of large-scale financing of companies.			
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Although many financing ways are available for companies, few companies can raise funds with equity due to the strict approval, complicated procedures, and high requirements on qualifications of equity financing. In terms of debt financing, financial lease is mainly suitable for companies with large investment in equipment, and the financing cost is high. Issuing ordinary bonds also represents high cost, complicated procedures, and strict conditions for companies. Therefore, such debt financing methods are not ideal choices for general jewelry companies. Commercial banks are the most traditional lenders and the most common financing channels chosen by jewelry companies. With the rapid development of the Internet, a large number of peer-to-peer lending platforms have appeared on the Internet. These new peer-to-peer lending channels have won the favor of consumers and become the main competitors of HY Jewelry Company in carrying out supply chain finance business.

Due to risk considerations, commercial banks generally strictly examine the repayment ability and willingness of jewelry companies, and their loan threshold is relatively high, which causes many jewelry companies or jewelers to be unable to obtain loans from commercial banks. For this reason, HY Jewelry Company's supply chain finance business has room and potential for development. The reasons why commercial banks have lost a large number of loan customers mainly include: First, the loan staff of commercial banks do not fully understand the loan standards; Second, the credit policies of commercial banks are generally affected by the relevant national policies. Once the national policies change, their current products will change greatly.

Third, commercial banks generally do not fully understand the credit needs of customers, and most of the credit products launched cannot fully satisfy customers; Fourth, as the Central Bank has not provided detailed classification standards, commercial banks generally cannot effectively implement various government policies when launching credit business. For this reason, commercial banks have lost lots of customer resources while carrying out financial lending business, which HY Jewelry Company should see as a warning to avoid the problems that commercial banks had while developing supply chain finance business. In fact, jewelers or jewelry companies are the main service objects of supply chain finance business, and their single customer type also indicates that the classification standard of supply chain finance business is not complicated. Therefore, in order to promote the smooth development of supply chain finance business, all that HY Jewelry Company needs to do is to determine the classification standard of supply chain finance business according to its own understanding of the jewelry industry. Compared with commercial banks, the main advantages of the financing business provided by HY for jewelry companies are listed below.

1. Compared with traditional commercial banks, HY Jewelry Company uses jewelry as collateral, which is different from traditional collateral such as cars and houses, and is the most ideal choice for jewelers and jewelry companies, who are therefore positioned as target customers. Specific products are customized to meet the needs of target customers.

2. Jewelry companies and jewelers belong to a capital-intensive industry, and most of their needs for funds are used to support short-term stocking, payment, and capital chain turnover. Collateral loans from banks are subject to long-lasting and strict approval procedures, and cannot address the urgent demand for funds of jewelry

companies and jewelers. The collateral loans of HY Jewelry Company are customized to solve the short-term needs of jewelers and jewelry companies, with jewelry as collateral.

3. HY draws on the operational procedures of commercial banks and private lending companies by adopting their strengths and complementing shortcomings. Based on its advantages resources and business processes gained during its long-term engagement in the jewelry industry, HY has developed a scientific, fast, rational, and convenient business process for the supply chain financial business, which features short processing time and high efficiency.

4. The risk in the jewelry supply chain financial business comes from the uncertainty of the customer on the one hand, and the collateral on the other. The professional jewelry appraisal team of HY can reduce the risk in this regard and provide the guarantee for the smooth development of the jewelry collateral lending business.

5. HY Jewelry Company is a professional jewelry seller. As HY enters the development stage of structural transformation and upgrading, carrying out jewelry supply chain financial business allows the company to reasonably integrate existing resources and give full play to the existing advantages, and to form long-term strategic partnerships with jewelers and jewelry companies. In recent years, HY Jewelry Company has specially developed jewelry supply chain finance business for jewelry sales. On the one hand, it can help customers to turn the collateral into cash, which can then be used for turnover in the short term. On the other hand, it also allows potential customers to sufficiently understand the value-preserving and value-adding function of jewelry, and enables them to purchase jewelry as an investment. This will undoubtedly increase the company's jewelry sales.

3.2 Analysis of the Internal Environment of HY Jewelry Company's Supply Chain Finance Business

3.2.1 Operation Status of HY Jewelry Supply Chain Finance Business

3.2.1.1 Operation Status of HY Jewelry Supply Chain Finance Business

HY Jewelry Company's supply chain finance business is in full swing. The total amount of the business is nearly 300 million yuan, of which 60% are loans with colored gems as collateral. In recent years, the outputs of many countries with a large jewelry output have declined, which has led to sharp increases in the prices of raw materials such as jewelry and ore. Therefore, the prices of colored gems have also shown a soaring trend, which is the main reason why colored gems used by jewelry companies as collateral currently accounts for more than 50%. Taking a glimpse at HY Jewelry Company's main customer base, we can see that the proportion of jewelers' borrowing has been increasing year by year, and most of these jewelers are short-term borrowers.

3.2.1.2 Analysis of Balance of HY Jewelry Company's Supply Chain Finance

(1) Bare diamond and finished products account for 38% of HY Jewelry Company's annual supply chain financial balance

As early as in the 1930s, the price of diamonds began to rise sharply, at a speed faster than that of inflation. For this reason, more and more investors began to invest in diamonds. In fact, only a small handful of people choose to buy diamonds, and most people buy diamonds as an investment. On the one hand, investors can protect their public funds by buying diamonds; on the other hand, investors no longer have to pay high prices to entrust funds to a custodian for management. At present, all countries in the world have fully recognized the value of diamonds, and governments have never restricted diamond trading. At present, therefore, all countries in the world

can engage in free and normal diamond trading, which, without doubt, further makes the value of diamond more reliable. More than 60% of the global diamond production is controlled by De Beers, and the price of carat diamonds is increasing by more than 20% every year.

As diamonds have the ability of value preservation and appreciation, many investors will see diamonds as their preferred choice for investment. Even in mortgage loans and pawn shops, diamonds have become important pawn objects and collateral. Therefore, serving as collateral, diamonds will play an important role in promoting the development of mortgage business while HY Jewelry Company is carrying out this business.

(2) Bare rubies and finished products account for 29% of HY Jewelry Company's annual supply chain financial balance

In the early 1990s, a large number of counterfeit rubies appeared in the market, which seriously disrupted the order of the diamond market, leading to a plummet in the sales volume of rubies at one time. Later, people began to popularize the knowledge and value of ruby, and consumers also recognized the value of ruby again, which triggered sharp rises in the price of ruby in the market, even higher than that of diamond. According to relevant statistics, during 2010-2015, the price of one carat ruby increased by more than RMB 200,000, and its price growth rate far exceeded that of other commodities, indicating that there is still a large room for price growth of ruby in China in the future. That is to say, ruby shows a considerable collection value.

In addition, the pigeon-blood ruby produced in Myanmar carries great weight in the ruby family. However, Myanmar has been a war-stricken country for 60 long years, which has led to a sharp decline in the output of pigeon-blood ruby and a sharp increase in its price. Because of its characteristics of value preservation and

appreciation and its scarcity, many customers use pigeon-blood ruby as the main collateral in supply chain finance. HY Jewelry Company also uses pigeon-blood ruby produced in Myanmar as the high-grade collateral while carrying out supply chain finance business. According to the relevant financial data of HY Jewelry Company's supply chain finance, 25% of the balance of supply chain finance comes from bare emeralds and finished products. Emeralds are mainly produced in the mining areas in Colombia, of which the best quality comes from Chivor Mining Area and Muzo Mining Area. However, in recent years, the outputs of emeralds in these two mining areas have been declining sharply, which is also the main reason for the sharp increase in the price of emeralds in the past 10 years. In some areas, the price of emeralds has increased more than 20% on a quarterly basis. At present, countries all over the world have disclosed the price of emeralds, and emeralds have huge room for value preservation and appreciation. Therefore, HY Jewelry Company will also accept emeralds as collateral while carrying out supply chain finance business.

The prices of the finished products of jade and other colored gems are relatively concealed, and vary from country to country. Therefore, HY Jewelry Company holds a reserved attitude towards the practices of the finished products of jade and other colored gems as collateral while carrying out supply chain finance business.

3.2.1.3 Analysis of Rates of Bad Account of HY Jewelry Company's Supply Chain Finance Business

While HY Jewelry Company is carrying out supply chain finance business, the rates of bad account of higher than 8% mostly involve sapphire collateral business. According to relevant statistics, the non-performing loan ratio of sapphire is only 0.9% in Myanmar. According to the development of HY Jewelry Company, compared with

other jewelries, the market price of sapphire is always relatively low, and the room for value preservation and appreciation is small. Therefore, the price evaluation of sapphire is often relatively low. However, as large carat sapphires are common in the market, many jewelers often use sapphire as collateral for loans. That is exactly because there are a large number of large-carat sapphires in the market, which leads to the fact that large-carat sapphires have little room for value appreciation. If jewelers use sapphires as collateral, and if they cannot repay the principal and interest on schedule, the jewelry company is directly responsible for handling the collateral. However, as sapphire itself has little room for value preservation and appreciation, even if the jewelry company deals with collateral, they cannot obtain considerable profits. HY Jewelry Company generally reduces the ratio of sapphire as collateral, in order to effectively control the rates of bad account of the company.

3.2.2 HY Jewelry Company's "Five-Party Model"

HY Jewelry Company has established a financial operation platform in China, as shown in Fig. 3.1, which is a "Five-Party System" operation model of the company, mainly including sales, overseas sales, gem finance, auction and investment platform. Under this operation model, HY Jewelry Company will relieve the worries of investors with its rich customer resources and huge sales network. On its supply chain finance platform, while providing customers with gem loan business, HY Jewelry Company requires customers to take colored gems as collateral. As the treasure business period is short, after the time expires, the customer can directly return the principal and interest and then recover the collateral. If the customer cannot repay the principal and interest, HY Jewelry Company will directly dispose of the collateral through its treasure auction platform or overseas platform, and the supply chain finance department will obtain all the proceeds from the disposal of the collateral.

Relying on the operation of the "Five-Party Model", HY Jewelry Company has formed the entry barrier of jewelry supply chain finance. At the same time, with its abundant financial strength, the company has effectively enhanced customer loyalty. In addition, by taking advantage of the loan interest rate lower than that of similar products in the market, HY Jewelry Company has formed a remarkable economy of scale in the entire jewelry supply chain business. The annual interest rates of similar products in the market are mostly less than 30%, and these small loan companies are often unable to dispose of collateral in time and effectively. Once the small loan companies fail to dispose of collateral for liquidation immediately, they may fall into bankruptcy crisis due to the capital chain rupture. Organically combining its overseas platform and treasure auction platform, HY Jewelry Company can directly dispose of collateral efficiently and quickly, thus solving the problem that collateral cannot be liquidated. Its high-quality and convenient overseas sales channels and liquidation channels help avoid the risk of mortgage backlog when HY Jewelry Company disposes of collateral, and bring maximum benefits to the company and investors.

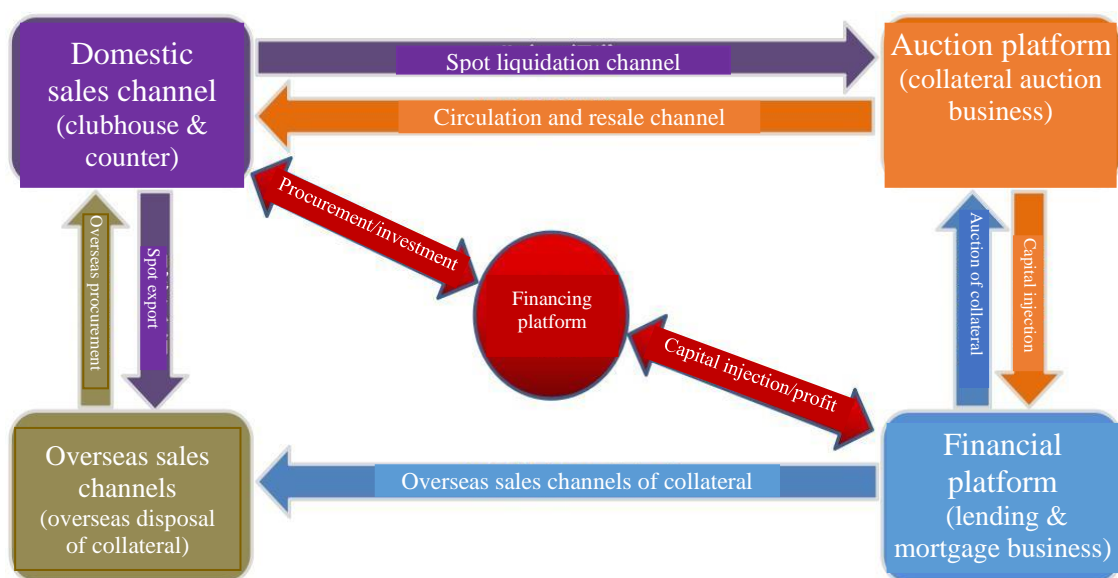


Fig. 3.1 Operation System of HY Jewelry Company's "Five-Party Model"

3.2.3 HY Jewelry Supply Chain Finance Business Risks

3.2.3.1 Internal Operational Risk

First, the supply chain finance business personnel of HY Jewelry Company may lack adequate risk awareness. A professional jewelry appraisal agency often conducts professional appraisal of mortgaged jewelry products, and then supply chain finance business handling personnel need to accurately judge the value of jewels based on the appraisal results and conduct a second appraisal of jewels. In fact, the secondary appraisal is important in the entire appraisal work, but most of the staff tend to directly accept the appraisal results of the professional jewelry appraisal agency, other than conducting the secondary appraisal of the collateral provided by the customer. As a result, there are often many problems and omissions in jewelry appraisal results. Once the appraisal value deviates greatly from the actual value, when the customer defaults, it may cause the jewelry company to be unable to recover the loss in time. The supply chain finance business personnel lack adequate risk awareness since they blindly believe in the appraisal results of the professional jewelry appraisal agency, as of result of which, the Company faces various risks when developing the jewelry supply chain finance business. Therefore, it is necessary for HY Jewelry Company to strengthen risk training for employees to improve their risk awareness. When carrying out jewelry supply chain finance business, relevant staff are required to strictly follow the Company's relevant procedures. Many staff want to save trouble and simplify the process of investigation and evidence collection, which ultimately leads to the supply chain financial decisions made by them exposed to risks.

3.2.3.2 Risk of defects in collateral rights

First, when the customer is unable to repay the principal and interest on time,

HY Jewelry Company has the right to dispose of the collateral submitted by the customer when obtaining the loan. If the relevant staff fail to properly register the collateral when handling the loan business, then to the extent that the customer cannot repay the principal and interest on schedule, HY Jewelry Company will not be able to quickly process the collateral in the first time, and thus to obtain income from disposal of the collateral to make up for its losses.

Secondly, if the mortgagor is not fully aware of the ownership of the collateral when handling the mortgage registration, it may cause the Company to face the risk of defect in collateral right in the subsequent processing of the collateral. Even if HY Jewelry Company may dispose of the collateral, it would greatly increase the cost of the Company's disposal of collateral, which will undoubtedly increase the risk of the Company's supply chain finance business.

3.2.3.3 Risk of falling collateral value

The value of jewelry products fluctuates up and down in the international market. Especially in the context of global economic integration, once the value of jewelry products declines, HY Jewelry Company may face huge losses when disposing of the collateral.

3.2.3.4 Advantage of HY Jewelry Supply Chain Finance Business

(1) Protect the development of jewelers and jewelry enterprises

Since China's reform and opening up, various preferential policies have been introduced to introduce foreign jewelers, leading to increasingly fierce market competition in the development of 'China's jewelry market. Many jewelers and jewelry enterprises encounter financial problems in their business activities and urgently need to obtain funds through borrowing in order to promote the smooth development of their various business. In the past, jewelers and jewelry enterprises

took commercial banks as their first choice for borrowing. However, commercial banks tended to strengthen strict approval of borrowing qualifications of jewelers or jewelry enterprises due to risk considerations, which greatly increased the lending threshold of the jewelry industry. In addition, the interest rate of private loans is relatively high, greatly increasing the financing cost of jewelers and jewelry enterprises. Because the financing needs of jewelers and jewelry enterprises have not been met, HY Jewelry Company has the opportunity to engage in the jewelry supply chain finance business. On one hand, the Company provided funds to jewelry enterprises or jewelers by carrying out jewelry supply chain finance business, so as to solve their financial problems in the development process, and promote the healthy development of the entire jewelry industry. On the other hand, HY Jewelry Company can obtain more customer resources by developing supply chain finance business, avoid the vicious circle of usury in the jewelry industry, and make full use of the limited social funds.

(2) Make up shortcomings in the financial lending market

When HY Jewelry Company develops jewelry supply chain finance business, it will require jewelers and jewelry enterprises to provide jewelry as collateral. This kind of lending method makes up for the shortcomings of traditional financial lending. In fact, in the traditional supply chain finance, traditional financial institutions only require customers to provide houses or vehicles as collateral, and this is because China has not yet built a complete jewelry appraisal system. It was HY Jewelry Company that first proposed to use security as collateral when it carried out jewelry supply chain finance business. This new type of supply chain finance model created a precedent in the entire financial lending market. However, many people take the development of jewelry supply chain finance with a grain of salt, believing that using

jewelry as collateral will damage the existing rules of the financial lending market. But in fact, HY Jewelry Company will take jewelry enterprises and jewelers as its main service objects, and these jewelry enterprises and jewelers cannot secure loans from traditional financial institutions by virtue of jewelry products. This proves that the jewelry supply chain finance business carried out by the Company is an important supplement to the traditional financial lending market, and is beneficial to the development of the entire financial market and social economy.

(3) Promote social and economic development

In the traditional financial lending business, commercial banks often require jewelry enterprises or small and micro enterprises to provide collateral such as houses or vehicles, but these small and micro enterprises and jewelry enterprises are often unable to provide appropriate collateral to secure loans and face a crisis of bankruptcy due to the inability to secure loans from commercial banks. In the process of market economy development, micro, small, and medium-sized enterprises can only have development opportunities after they solve their financing problems. Especially that these enterprises are in an unstable rising period, commercial banks are unwilling to lend funds to them due to risk considerations or would raise the threshold for lending, if any. The jewelry supply chain finance business carried out by HY Jewelry Company provides a new path for jewelers and jewelry enterprises to obtain funds. This can undoubtedly provide a new development idea for the development of the traditional financial lending market, realize the rational allocation of social funds and be more conducive to promoting social and economic development.

3.3 Analysis of the Five Forces Model of HY Jewelry Company's Supply Chain Finance Business

Porter's Five Forces Model is mainly used to analyze the competition

environment for enterprises. This paper will establish this model to analyze the competition situation of HY Jewelry Company's jewelry supply chain finance business.

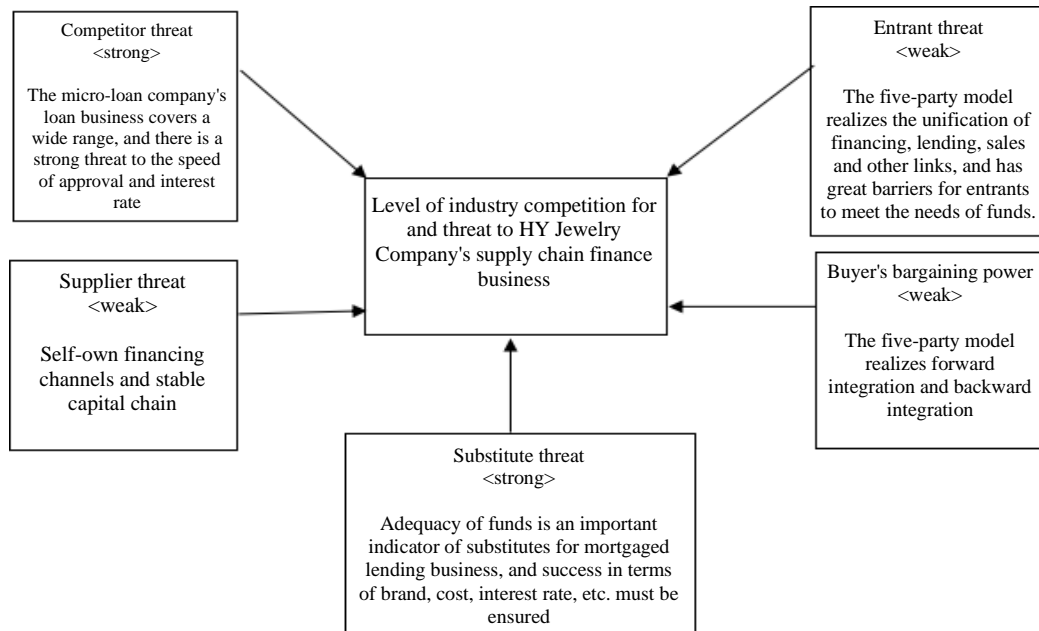


Figure 3.2 Five Forces Model Analysis of Industry Competition of HY Jewelry Company's Supply Chain Finance

Through the research of HY Jewelry Company, it can be found that compared with traditional commercial banks, micro-loan companies further simplify the approval process, have a wider scope of business, and can provide customers with highly efficient services with low interest rates. This also proves that these micro-loan companies will become the main competitors of jewelry enterprises. HY Jewelry Company has established a five-party model to carry out jewelry supply chain finance business. After realizing forward integration and backward integration services, the bargaining power of suppliers and consumers has been greatly weakened, so the Company suffers no threats from the two parties. HY Jewelry Company has strong capital, which is also the basis for its ability to smoothly carry out supply chain finance business. However, compared with commercial banks, HY Jewelry Company

still has many disadvantages in terms of capital, and its capital mainly comes from jewelry sales. In the future, the Company still needs to further improve the brand characteristics and approval efficiency of its supply chain finance business in order to meet the challenges posed by commercial banks. When HY Jewelry Company develops its supply chain finance business, it also needs to consider the threat from new entrants in the industry.

Through the establishment of the Five Forces Model, we can fully understand the series of competitions HY Jewelry Company is currently facing when developing the jewelry supply chain finance business. Through comprehensive analysis of the competitive forces from different aspects, we can help HY Jewelry Company establish the correct competitive strategy in order to effectively respond to market competition.

3.3.1 Supplier's Bargaining Power

The bargaining power of suppliers mainly comes from the control of product quality and product prices. For example, when a supplier increases its product price, the enterprise's product cost will rise sharply; and when a supplier reduces the quality of its products, it may cause damage to the enterprise's social reputation. The bargaining power of suppliers is often affected by many factors. This paper will further analyze the threats from suppliers when HY Jewelry Company develops supply chain finance business:

First, HY Jewelry Company is the main supplier for its supply chain finance business, which proves that there is no premium relationship between the supplier and the Company. At this time, it is only necessary to effectively balance the Company's internal supply chain finance business and jewelry sales business. From the previous analysis, we can see that when HY Jewelry Company develops supply chain finance

business, it has achieved internal forward integration, so it directly eliminates the threat from suppliers.

Secondly, the funds for HY Jewelry Company's jewelry supply chain finance business mainly come from the suppliers, but such funds have extremely smooth circulation channels in the society, which thus greatly reduces the conversion cost of the Company.

Finally, HY Jewelry Company has established a five-party model to realize backward integrated production, which also means that suppliers will not have excessive competitiveness when the Company develops supply chain finance business.

Suppliers are upstream enterprises for the supply chain finance business developed by HY Jewelry Company, but HY Jewelry Company has established a financing platform and can directly obtain funds from investors or partners through the financing platform. Therefore, suppliers bring relatively small threats to the Company's development of supply chain finance business and will not affect the Company's supply chain finance business.

3.3.2 Buyer's Bargaining Power

A buyer's bargaining power mainly comes from the buyer's hope that the jewelry company can reduce the product price, which will undoubtedly reduce the profit level of the jewelry company. This paper will then further analyze in detail the threats from buyers when HY Jewelry Company develops supply chain finance business:

First, in the supply chain finance business carried out by HY Jewelry Company, there are often 1-2 major customers. These customers will have a significant influence on the Company's supply chain finance business. Once these important customers have excessive demands, HY Jewelry Company usually has to

accept such demands with a view to lose no customers, as a result of which the Company is in a passive position in carrying out supply chain finance business.

Secondly, there are still many products provided by financial lending companies in the industry that are quite interchangeable with those provided by HY Jewelry Company. This provides consumers with more choices and improves consumers' bargaining power. HY Jewelry Company is a pioneer in the entire jewelry supply chain finance business, so there are few specialized jewelry supply chain financial products in the market, which greatly weakens the bargaining power of jewelers and jewelry enterprises.

In addition, HY Jewelry Company has been operating in the jewelry industry for more than 20 years, and accumulated abundant customer resources such as jewelers and jewelry enterprises, and these customers have extremely close relationships with the Company and are highly loyal.

Finally, after HY Jewelry Company realized forward integrated and backward integrated business, it greatly weakened the buyers' bargaining power. Thus it can be seen that for the jewelry supply chain finance business of HY Jewelry Company, buyers represented by jewelers and jewelry enterprises will not pose an excessive threat.

3.3.3 Threat from New Entrants

If a large number of new entrants flood into the industry, the original market structure of the industry will be quickly changed, and the profit level of existing companies in the industry is very likely to drop sharply. If new entrants have a lot of resources, they may even pose a huge threat to existing competitors in the industry, and even cause bankruptcy of such existing competitors. The existing companies in the industry would respond to the threat from new entrants by establishing industry

barriers, which will also have a certain impact on the development of the entire industry. If the existing companies have a relatively radical attitude towards the new entrants, they would set up extremely high industry barriers.

In the entire supply chain finance industry, product differentiation is the main barrier to entry. HY Jewelry Company will take jewelers and jewelry enterprises as its main service objects, and require jewelers and jewelry enterprises to provide jewelry and other collateral to secure loans. Thus it can be seen that the general supply chain finance entrants will not pose excessive threat to the development of the entire industry.

From the perspective of conversion costs, when developing supply chain finance business, the conversion costs of HY Jewelry Company mainly include talent costs, organizational costs, and asset realization costs. If the Company can launch highly distinctive and influential products in the market, the conversion costs of potential entrants will greatly increase, which will undoubtedly establish a higher industry barrier and help HY Jewelry Company more calmly deal with the threat from new entrants.

3.3.4 Threat from Substitutes

If the products launched by two companies in the market have great substitutability, the products or services of the two companies will face great competition in the market. When HY Jewelry Company develops jewelry supply chain finance business, it is threatened by substitutes in the jewelry industry and supply chain finance industry. Compared with aerospace, energy or other monopolistic industries, the threat from substitutes in the jewelry industry is mainly manifested in the following three aspects:

First, as a highly profitable and capital-intensive industry, the jewelry industry

usually has high requirements for capital. HY Jewelry Company uses jewelry as collateral to carry out supply chain finance business in China. However, there are currently a large number of micro-loan companies in the entire lending market and these micro-loan companies may also accept borrowing requests with jewelry as collateral, which poses a strong threat from substitutes.

Secondly, compared with HY Jewelry Company, micro-loan companies have lower loan interest rates and a simpler approval process and can handle loans more efficiently and quickly for clients. If HY Jewelry Company cannot provide customers with high-quality services, customers are likely to choose to cooperate with micro-loan companies.

Finally, in the mortgaged loan business, as long as a mortgage contract is signed, the funds can be allocated immediately, which will greatly reduce the conversion cost of the borrower. Therefore, mortgaged loan will also pose a great threat to HY Jewelry Company's jewelry supply chain finance business.

To sum up, with respect to the series of substitute threats to HY Jewelry Company's supply chain finance business, the following measures should be taken:

First, HY Jewelry Company can launch more jewelry supply chain financial business according to the actual situation of jewelers or jewelry enterprises. For example, it can appropriately reduce the loan interest rate of its financial, which will undoubtedly improve the core competitiveness of the Company's supply chain financial products.

Second, HY Jewelry Company can appropriately increase loan balances, which will undoubtedly further expand its market scale of jewelry supply chain finance business. For example, the Company can grant loans free of collateral to jewelry enterprises or jewelers with good reputation in the market, which will

certainly help the Company retain more high-quality customers and major customers.

Third, HY Jewelry Company can take the route of brand development. After establishing a good reputation and image in the industry, it will certainly be able to recruit more high-quality customer resources.

Fourth, HY Jewelry Company should further develop overseas platforms and use overseas sales platforms to quickly and efficiently dispose of the collateral, so that the collateral can be realized as soon as possible, so as to avoid financial problems during the Company's development of jewelry supply chain finance business.

3.3.5 Degree of Competition among Competitors in the Industry

In the supply chain finance industry, online lending platforms, private lending companies, and commercial banks have typical competitive relationship. All competitors launch high-quality products or reduce lending rates to grab client resources and improve their core competitiveness in the market. HY Jewelry Company takes jewelers and jewelry enterprises as its main service objects, and grants loans to them with jewelry as collateral. If competitors in the industry see profits in the market, they will follow suit. But since commercial banks are more professional and stable, if commercial banks and jewelers establish a stable cooperative relationship, it will inevitably have a huge impact on HY Jewelry Company's jewelry supply chain finance business.

Commercial banks and emerging online lending platforms are the main competitors of HY Jewelry Company in respect of supply chain finance business. However, due to risk considerations, commercial banks have raised the lending threshold for jewelry enterprises or jewelers, and even put forward more stringent credit requirements, in order to strengthen the risk management and control of credit business. If jewelry enterprises and jewelers are unable to secure loans from

commercial banks, they will inevitably choose other loan channels, which provides an important opportunity for HY Jewelry Company to develop jewelry supply chain finance business. Financial lending business has been hit hard in the current Internet era: First, when commercial banks handle loan business, the functionaries fail to fully understand the rigid standards and lack rigorous understanding, which leads to many loopholes in the loan business handling; Second, China fails to further improve the software system and hardware system of supply chain finance companies after implementing the financial lending policy; Third, commercial banks do not fully understand the needs of loan customers, and are often unable to reasonably appraise the needs and credit status of loan customers; Fourth, the Central Bank has not issued detailed classification standards, so commercial banks are unable to implement policies when conducting financial lending business. As a result, commercial banks lose abundant client resources when they develop financial lending business. HY Jewelry Company should take a warning to avoid the problems that commercial banks have experienced when developing supply chain finance business. In fact, since HY Jewelry Company takes jewelers or jewelry enterprises as its main service objects of supply chain finance business, its single customer type also indicates that the classification standard for its supply chain finance business is not complicated. Therefore, HY Jewelry Company can promote the smooth development of supply chain finance business so long as it determines the classification of supply chain finance business according to its understanding of the jewelry industry.

In addition, the cost of exit from the jewelry industry is generally high. So many jewelers and jewelry enterprises are still unwilling to exit from the market even though they cannot make ends meet. If supply chain finance companies do not understand the profitability of jewelers or jewelry enterprises, they are unable to make

the right decision when providing mortgaged loans for jewelers or jewelry enterprises, and thus may face irrecoverable loans, which is not conducive to HY Jewelry Company's smooth development of jewelry supply chain finance business.

To sum up, HY Jewelry Company is still facing many difficulties in carrying out jewelry supply chain finance business. In addition, there has been no professional appraisal agency on the market that can carry out professional appraisal of jewelry, as a result of which HY Jewelry Company faces many problems in developing supply chain finance business because it is unable to appraise the collateral accurately.

This paper analyzes the external competitive environment for HY Jewelry Company by organically combining the Five Forces Model established by Professor Porter. Through the analysis of the Company's internal and external environments, we find out the threats and challenges that the Company faces in its current jewelry supply chain finance business. After in-depth analysis of HY Jewelry Company's operating conditions, according to the Company's financial statements, this paper makes an in-depth and comprehensive analysis of the profits of different collateral and their proportion in loan balances. It can be seen that when HY Jewelry Company develops supply chain finance business, its overall operation and capital turnover will directly depend on the non-performing loan rate of jewelry mortgaged loans. Therefore, the relevant staff of the Company must, on one hand, strengthen the comprehensive screening of jewelry and other collateral, and on the other hand, establish a complete customer appraisal system to make strict and perfect appraisal of the customers' credit rating, so that the Company's supply chain finance business can be effectively rectified from the root cause and smooth development of the Company's supply chain finance business can be promoted.

CHAPTER IV

COMPETITIVE STRATEGIC POSITIONING AND PLAN ANALYSIS OF HY JEWELRY COMPANY'S SUPPLY CHAIN FINANCE BUSINESS

4.1 Competitive Strategic Positioning Principles for HY Jewelry Company's Supply Chain Finance Business

4.1.1 Best Product Positioning Principle

Product positioning mainly refers to the behavior of the Company to clarify the products to be provided to customers based on the needs of customers. The purpose of product positioning is to improve the core competitiveness of the enterprise's products or services. This requires that the product positioning formulated by the Company must fully meet the needs of the target customers, so as to ensure that the enterprise's products or services can fully meet customer requirements. This not only enables target customers to be highly loyal to the enterprise's brand or products, but also helps the Company rely on the existing product positioning to form a good brand image and remain invincible in the market. In the process of product positioning, it is necessary to conduct an in-depth and detailed analysis of the needs of the target customer base and fully understand the competitive products in the market. Only after understanding the competitive products and customer demands can the Company truly determine product positioning.

Market positioning and product positioning have essential differences. Market positioning is to help the Company clarify the target customers in the target market, while product positioning is to determine products to be designed and produced based on the needs of target customers in the target market. Thus it can be seen that market positioning is to choose customers, and product positioning is to choose products. HY Jewelry Company takes jewelers and jewelry enterprises as its target customer base.

Compared with other customers, jewelers and jewelry enterprises are relatively weak, and compared with general customers, jewelers and jewelry enterprises are particular to a certain extent. When supplying chain financial products, HY Jewelry Company needs to pay full attention to the characteristics and needs of jewelers and jewelry enterprises. Compared with commercial banks and private financial institutions, when HY Jewelry Company provides customers with supply chain financial products, it needs to fully consider both the scarcity of resources and customer demands. Only product positioning determined on this basis can truly meet customer demands and improve its core competitiveness.

(1) Customer demands

In the production and operation activities of jewelry enterprises and jewelers, flexible capital allocation is often required. As we all know, foreign jewelry markets and mining area purchases often directly affect the product prices in China's jewelry industry. At present, after a certain period of time in the domestic and foreign jewelry markets, fluctuations in foreign mining area purchases and jewelry markets may lead to fluctuations in jewelry prices in China's market. This requires stable cash flows of jewelry enterprises and jewelers to adequately cope with fluctuations in jewelry prices. In order for jewelry enterprises and jewelers to effectively purchase goods, they often need to secure loans based on their products as collateral.

Therefore, HY Jewelry Company can develop supply chain financial services according to customer demands to ensure that it can fully meet the short-term capital turnover requirements of jewelry enterprises and jewelers. Table 4.1 shows the annual interest rate and loan term of the supply chain finance service provided by HY Jewelry Company to its customers during the period from 2018 to 2019. The interest rate was adjusted according to the loan interest rates of banks and other competitors

such as small loan companies in the same period.

Table 4.1 Loan Term and Interest Rate for HY Jewelry Company's Supply Chain Finance Business in 2018-2019

Loan term	Annual interest rate of HY	Annual interest rate of small loan company
15 days	10%	15%
Within 1 month (inclusive)	11%	16%
45 days	11.2%	17%
2 months	11.6%	18%

(2) Resource scarcity

The jewelry industry is a typical capital-intensive industry. Jewelers and jewelry enterprises usually need a large amount of precipitation funds to purchase goods and raw materials. If the purchase price can be controlled, the profitability of the jewelry industry can be greatly improved. However, because the price of raw materials in the jewelry industry fluctuates frequently, jewelers or jewelry enterprises often need to make sufficient purchases when they find that the price is low. This requires sufficient funds of jewelers or jewelry enterprises, so they need to borrow money in a short period of time. Faced with the special financial needs of the jewelry industry, HY Jewelry Company can provide customers with supply chain financial products with loan term ranging from 15 days to two months, which undoubtedly can fully meet the financial needs of customers.

4.1.2 Customer Solution Principle

HY Jewelry Company has specially formulated the "five-party model" for the development of jewelry supply chain finance business and the solution of the financial problems of customers. On one hand, the "five-party model" will mainly serve jewelry enterprises' development of jewelry supply chain finance business, and on the other hand, it will provide financial services for jewelers and jewelry enterprises

through the establishment of a financial platform. On the sales platform and auction platform, jewelers and jewelry enterprises can obtain funds by auctioning jewelry, which undoubtedly provides customers with more financing options, and can solve customers' financial problems from multiple angles and channels. The value of HY Jewelry supply chain financial products includes three aspects: First, core value. On one hand, it refers to the fact that the Company will develop supply chain finance business; on the other hand, it refers to that the Company's supply chain finance products can fully meet the financial needs of customers. Second, form value. Form value is the carrier of core value, and means that the jewelry supply chain financial products provided by HY Jewelry Company can basically solve the financial problem of jewelers and jewelry enterprises in the development process. Third, added value, that is, the value-added services provided by HY Jewelry Company to customers. For example, the overseas sales platform or auction platform established by the Company can handle jewelry and other collateral efficiently and quickly for customers, and can also provide customers with overall solutions of financial problems. Added value is an important supplement to core value and formal value.

HY Jewelry Company will be committed to providing customers with overall financial solutions and providing jewelry supply chain financial products based on the actual situation of jewelers and jewelry enterprises. In addition to providing customers with jewelry supply chain financial services, the Company also provides customers with the auction platform on which customers can obtain funds through jewelry auctions. In addition, HY Jewelry Company can also process collateral through overseas sales platforms and auction platform, which will undoubtedly help the Company realize collateral more efficiently and quickly, and prevent the Company's loans from turning into doubtful debts or bad debts.

4.2 Selection of Competitive Strategic Plan for HY Jewelry Company's Supply Chain Finance Business

In the face of increasingly fierce market competition, any industry or enterprise must formulate a scientific and effective competitive strategy in order to gain a firm foothold in the market competition and remain invincible. The jewelry industry is a capital-intensive industry, so it should focus on differentiated and centralized strategies. After fully understanding the whole process of HY Jewelry Company's development of supply chain finance business, this paper comprehensively analyzes the centralization strategy and product differentiation strategy for the target market based on the competition theory proposed by Professor Porter.

4.2.1 Product Differentiation Strategy

Through the establishment of Porter's Five Forces Model, it can be found that HY Jewelry Company will face threats from competitors and substitutes in the development process. Therefore, the implementation of product differentiation competitive strategy will be more conducive to the Company's effective response to market competition. From the perspective of the supply chain finance industry, the ultimate goal of its products or services is to solve the loan problems of jewelers or jewelry enterprises. In the process of providing loans, compared with other supply chain products, the biggest difference lies in the use of jewelry as collateral. When HY Jewelry Company is involved in supply chain financial products, it must first fully consider the product needs of customers such as jewelers and jewelry enterprises, and implement product differentiation strategies on this basis.

Table 4.2 Comparison of Supply Chain Finance Business of HY Jewelry Company and That of Banks and Micro-Loan Companies

Type	Item	HY Jewelry Company	Bank	Micro-loan company
Service	Customer base	Jewelry enterprises and jewelers	Enterprises and individuals	Enterprises and individuals
Product	Collateral	Jewelry	Mainly real estate	Real estate, credit, vehicles
	Loan ratio	80-85%	60-70%	60-80%
	Shortest approval period	3 hours	20 working days	3-5 working days
	Loan term	15 days to 2 months	6 months	Unlimited
Risk control	Collateral treatment	Foreign realization channels	Auction	Sale, etc.
Planning	Differentiated planning	Use loans to promote sales	Charge interest	Charge interest

After conducting preliminary market research and market demand analysis, HY Jewelry Company has learned about the banks' loan interest rates, and simplified loan process and approval process based on those of commercial banks. It has developed jewelry supply chain financial products with a term of 15 days to two months specifically according to customer demands in the jewelry industry, to meet the special needs of special customers in the jewelry industry. HY Jewelry Company will implement a product differentiation strategy according to customer demands to effectively unify jewelry sales and loan mortgage business.

(1) Target customer differentiation

HY Jewelry Company's target customer base is jewelers and jewelry enterprises in the jewelry industry. Compared with the target customer base of traditional financial institutions, HY Jewelry Company's target customer base is particular to a certain extent. On one hand, this allows the Company to avoid large business conflicts with traditional financial institutions when carrying out the supply chain finance business. On the other hand, through differentiated target customer base

positioning, it can also effectively improve the core competitiveness of the Company. Jewelry enterprises and jewelers are special target customers, and their jewelry borrowing needs are inherently specific. HY Jewelry Company can provide differentiated jewelry supply chain financial products specifically for the needs of customers to specifically meet customer demands. For example, it can provide services such as jewelry sales or overseas realization according to the needs of the target customer base, which will undoubtedly help the Company win the favor and loyalty of customers, and even improve the efficiency of the Company's operation and management.

(2) Product differentiation

Jewelry enterprises and jewelers belong to a capital-intensive industry, so they need abundant funds to pay for goods and purchase raw materials. These funds are usually turned over only in short-term. Therefore, commercial banks' excessively long approval procedures and excessively strict collateral review are not enough to meet the loan needs of jewelry enterprises and jewelers. Compared with commercial banks, HY Jewelry Company can provide customers with mortgaged jewelry realization services, and can grant loans to customers in a shorter period of time due to its simpler approval process. Its minimum loan term is only 15 days, which is sufficient to meet the short-term capital turnover needs of customers in the jewelry industry.

From 2011 to 2020, the loan interest rates of commercial banks showed a trend of declining year by year. For risk considerations, commercial banks not only require individuals or enterprises to have good credit ratings, but also require the same to provide adequate loan collateral, which makes it often difficult to secure loans from commercial banks.

The jewelry appraisal team of HY Jewelry Company can quickly identify the

jewelry collateral submitted by customers within two hours, and the time limit for granting loans is compressed to be within three hours. The standardized process of efficient accounting established by it is preferred by customers in the jewelry industry.

(3) Risk control differentiation

In any mortgaged loan business, non-performing loan business may occur, and commercial banks or micro-loan companies have to bear the risks of handling collateral. The jewelry industry, as a typical capital-intensive industry, is affected by capital turnover during its development process. Because of the short-term capital turnover needs of customers in the jewelry industry, HY Jewelry Company provides customers with supply chain financial services and is committed to providing overall planning services for customers in the jewelry industry, aiming to help jewelry enterprises effectively control risks. When HY Jewelry Company provides customers with mortgaged loan services, it also provides services such as jewelry auctions or jewelry store sales, but these services also have cost risks and market risks. Compared with other companies, HY Jewelry Company's overseas sales market and auction platform can help customers dispose of collateral in the shortest time and realize jewelry realization. As we all know, the overseas jewelry market will have a great impact on product pricing and product sales in the Chinese jewelry market, while price fluctuations in the international jewelry market often take a period of time before it affects the price of the jewelry market in China. Therefore, in order to realize the rapid realization of collateral, HY Jewelry Company's overseas realization channels have to ensure profit margin of at least 30% in the disposal of collateral, which can ensure that the Company can smoothly carry out the supply chain finance business.

(4) Planning differentiation

Jewelry enterprises and jewelers can obtain funds in short period of time through the jewelry mortgaged loan business to solve their short-term capital turnover problems. In recent years, HY Jewelry Company has specially carried out the jewelry supply chain financial business in terms of jewelry sales. On one hand, this can help customers cash mortgaged funds which can be used for turnover purpose in the short term. On the other hand, this enables potential customers to be fully aware of the value-preserving and value-addition function of jewelry and purchase jewelry as an investment channel, which will undoubtedly increase the Company's jewelry sales.

At present, the sales of China's jewelry industry are deteriorating. If HY Jewelry Company wants to achieve reverse sales, it is necessary to strengthen the development of jewelry supply chain financial business, which on one hand, can solve the short-term capital turnover problem of jewelry enterprises and jewelers in the process of business development, and on the other hand, can promote the sales of jewelry.

4.2.2 Market Centralization Strategy

The market concentration strategy requires the Company to select the target market in many market segments based on its internal and external resources, and then launch specific products based on the needs of customers in the target market, so as to improve loyalty of customers in the target market in a targeted manner. The indifference marketing model emphasizes that the Company should launch popular products and meet the same needs of the public through the same products. For example, Coca-Cola has adopted the indifference marketing model. However, with the rapid social and economic development, the consumption level of the masses is higher and higher, and diversified and individual needs have arisen. Thus the

traditional indifference marketing model no longer meets the needs of the masses.

The market concentration strategy requires prior market segmentation and market positioning. First, it is necessary to subdivide the entire supply chain financial market; Secondly, it is necessary to select the target market in many market segments according to the Company's internal and external resources; Finally, according to the target market selected, it is necessary to study in detail the needs of the target customer base in the target market, clarify customer positioning, and determine the supply chain financial services to be provided by the Company.

Jewelry enterprises and jewelers are the main target customer base of HY Jewelry Company. Since the jewelry industry is a typical capital-intensive industry, HY Jewelry Company must formulate financial solutions based on the actual needs of the target customer base. Its ultimate goal is to solve short-term capital turnover problems of jewelry enterprises and jewelers. Thus it can be seen that in the jewelry supply chain finance business, the market can be divided into jewelry enterprises and jewelers.

In the face of the jewelry enterprise market, HY Jewelry Company can fully understand the actual needs of jewelry enterprises and use past data for analysis. For example, it can appropriately extend the loan term and increase the loan limit for jewelry enterprises. In the face of jewelers, HY Jewelry Company can choose to provide jewelers with a more convenient and efficient approval process, and provide jewelers with loans by implement jewelry mortgaged loans at a price lower than the market appraisal price. The implementation of different supply chain financial products according to different target customers can effectively reduce the Company's loan risk and fully meet the needs of target customers.

4.3 Analysis of Competitive Strategic Plan for HY Jewelry Company's Supply Chain Financial Business

4.3.1 Analysis of Strategic Plan for Market Centralization

When HY Jewelry Company develops its supply chain finance business, it takes jewelry enterprises and jewelers as its main target customer base, and develops targeted and differentiated products according to the actual needs of the target customer base. HY Jewelry Company will first choose a reasonable market concentration strategy based on the target customers it chooses and its internal and external resources. For example, the strategy implemented with jewelry enterprises and jewelers as special target customer base is a pure centralization strategy; Products or services provided according to the difference between the needs of jewelry enterprises and jewelers and the needs of ordinary customers, are differentiated centralization strategy.

(1) Determine the target market

HY Jewelry Company determines the jewelry market as the target market for its jewelry supply chain finance business, and provides targeted funding solutions in combination with the special financial needs of jewelry enterprises or jewelers in the jewelry industry. Therefore, its target market is mainly subdivided into two market segments, jewelry enterprises and jewelers.

(2) Analyze the target market

After clarifying the segmented target market, it is necessary to analyze the specific target market in order to determine the special needs of the target customer base in the target market. HY Jewelry Company needs to fully understand the needs of jewelry enterprises and jewelers. Only after it understands the special funding needs of these two market segments can it provide targeted jewelry supply chain

financial products.

(3) Develop differentiated and centralized products

Jewelry enterprises and jewelers are the target customer base for HY Jewelry Company's jewelry supply chain finance business. Therefore, it needs to develop differentiated and centralized products in a targeted manner for jewelry enterprises and jewelers. In the face of the jewelry enterprise market, HY Jewelry Company can fully understand the actual needs of jewelry enterprises and use past data for analysis. For example, it can appropriately extend the loan term and increase the loan limit for jewelry enterprises. In the face of jewelers, HY Jewelry Company can choose to provide jewelers with a more convenient and efficient approval process, and provide jewelers with loans by implement jewelry mortgaged loans at a price lower than the market appraisal price. The implementation of different supply chain financial products according to different target customers can effectively reduce the Company's loan risk and fully meet the needs of target customers.

(4) Use a variety of promotional means

After providing differentiated products or services based on the actual needs of customers, it is also necessary to organically combine diversified promotional methods for marketing. HY Jewelry Company currently provides similar jewelry supply chain financial products to different jewelry enterprises and jewelers, and does not provide differentiated products according to the different needs of different customers.

(5) Protect the target market and reduce market risks

Market concentration strategy often leads to strategic risks. In order to fully meet the needs of target customers, the Company often needs to provide customers with high-quality products or services that can meet their needs based on the actual

conditions in the target market. If the products or services provided by the Company cannot meet the needs of the target customer base, it may cause the target customer base to lose their trust and loyalty to the enterprise's products or brand, and the implementation of a centralization strategy at this time will not be able to achieve the intended purpose. In order to effectively reduce market risks, HY Jewelry Company must strengthen accurate control of the target market and understand the special needs of the target market when implementing the supply chain finance business, so as to position the products according to the special needs of the target customer base and ensure that its jewelry supply chain financial products or services can solve customer financial problems in a targeted manner which is conducive to the implementation of various centralization strategies formulated by the Company.

4.3.2 Analysis of Product Differentiation Strategy Plan

The product differentiation strategy requires the Company to introduce highly differentiated products or services to the market. In addition, it requires the Company to launch products or services with its own characteristics to fully meet the needs of target customer base. In addition, market demand changes over time, which requires the Company to accurately identify changes in market demand. On one hand, HY Jewelry Company must effectively predict the future trend of the jewelry market, and be able to predict the capital needs of jewelry enterprises or jewelers in the jewelry industry, in order to proactively introduce suitable jewelry supply chain financial products to the market and meet user needs. On the other hand, HY Jewelry Company must have strong product design capabilities and product innovation capabilities. After fully understanding market needs, it must be able to launch appropriate jewelry supply chain financial products based on user needs in the first time, and enable target customers to fully understand the products through appropriate marketing means,

which undoubtedly can further reduce its strategic risk.

Commercial banks and private lending companies are the main competitors of HY Jewelry Company in terms of supply chain finance business. HY Jewelry Company will conduct a comprehensive analysis of the advantages and disadvantages of itself and its competitors before implementing a product differentiation strategy.

(1) Develop differentiated products

HY Jewelry Company will introduce characteristic jewelry supply chain financial products to the market. Compared with commercial banks and micro-loan companies who provide credit products with vehicles or houses as collateral, HY Jewelry Company provides customers with supply chain financial products with jewelry as collateral. Since jewelry enterprises and jewelers have a large amount of jewelry raw materials or finished products, it can undoubtedly solve the plight of lack of collateral. Therefore, the jewelry supply chain financial products launched by HY Jewelry Company can better meet the needs of target customer base.

The approval process of commercial banks and micro-loan companies is relatively long, and due to risk considerations, commercial banks often raise the approval threshold for jewelry enterprises and jewelers. And their strict collateral approval process will cause jewelry enterprises or jewelers' inability to obtain turnover funds from banks in a short period of time. However, jewelry enterprises and jewelers will have great capital needs in their production and operation activities to purchase raw materials, and pay for goods. HY Jewelry Company provides jewelry supply chain finance business for target customer base, which will be able to provide short-term loans to jewelers or jewelry enterprises in a short period of time. At the same time, HY Jewelry Company accepts jewelry as collateral, which will undoubtedly better meet the financial needs of jewelers or jewelry enterprises.

(2) Develop professional business processes

HY Jewelry Company will provide customers with a more professional and convenient and faster business process to shorten the approval time as much as possible, and form an advantage in the approval process and approval time, so as to win the favor of jewelers and jewelry customers.

(3) Use new services to drive jewelry sales

HY Jewelry Company is a professional jewelry sales company. The main purpose of its jewelry supply chain finance business is to stimulate sales, and only jewelry sales can really increase its profit margin. Especially after HY Jewelry Company enters the development stage of structural transformation and upgrading, its development of jewelry supply chain finance business enables it to rationally integrate existing resources, give full play to the existing jewelry advantages, form a long-term strategic cooperation relationship with jewelers and jewelry enterprises, and drive jewelry sales with jewelry supply chain finance business. In recent years, HY Jewelry Company has specially carried out the jewelry supply chain financial business in terms of jewelry sales. On one hand, this can help customers cash mortgaged funds which can be used for turnover purpose in the short term. On the other hand, this enables potential customers to be fully aware of the value-preserving and value-addition function of jewelry and purchase jewelry as an investment channel, which will undoubtedly increase the Company's jewelry sales.

(4) Build a professional jewelry appraisal team

The uncertainty of customers and the risk of collateral will cause a series of risks in jewelry supply chain finance business. HY Jewelry Company has established a professional jewelry appraisal team, which can complete the professional appraisal of jewelry in just two hours. This undoubtedly can promote the smooth development

of the Company's jewelry supply chain finance business.

(5) Enhance publicity

In order to effectively distinguish its supply chain finance business from the products of competitors, it is necessary for HY Jewelry Company to enhance the publicity of jewelry supply chain finance business and other related products. For example, it can form a unique brand style in the industry by establishing brand logos or business logos, to improve consumer brand loyalty and brand trust. In addition, HY Jewelry Company can also provide customers with differentiated products, services or product quality, and increase the visibility and influence of the Company's supply chain finance business in the industry by strengthening product publicity, to attract more customer resources for its development of jewelry supply chain finance business.

(6) Do a good job in corporate culture construction and talent introduction

As we all know, the 21st century has entered an era of talent competition. If HY Jewelry Company wants to promote the smooth development and further development of the supply chain finance business, it must introduce more high-quality professionals and enhance team cohesion and combat effectiveness by constantly enriching the corporate culture and innovating the communication carrier.

HY Jewelry Company lacks professional supply chain financial talents, which is the main reason why the Company cannot carry out jewelry supply chain finance business. In addition, HY Jewelry Company also needs to formulate strict and complete incentive mechanism, management mechanism, and a good corporate culture in order to retain outstanding talents and to make the best use of their talents when developing jewelry supply chain business. Only strengthening talent incentives and talent introduction can reserve talents for the Company's supply chain finance

business.

HY Jewelry Company always insists on perfecting and enriching corporate cultural connotation, takes "achieving eternal love" as its core value to achieve the love of customers, the love of employees, and the love of society. It adheres to the business philosophy of "professionalism, integrity and love" and strives to achieve customer satisfaction, company satisfaction, shareholder satisfaction, social satisfaction. In summary, the corporate culture of HY Jewelry Company is embodied in the word "love". Starting from the basic work of chain brands such as unified image, unified decoration, and unified model, it continues innovation, exploration and enriching to make the "love" business stronger and bigger.

(7) Optimize supply chain financial products and services, and strengthen channel construction

HY Jewelry Company will inevitably further expand the scale of its supply chain finance business in the future. In particular, it has established a benign customer partnership with some jewelers and jewelry enterprises. In the future, it must further optimize its supply chain financial products to improve the loyalty of such old customers. In addition, HY Jewelry Company also needs to strengthen channel construction, and formulate targeted and differentiated marketing plans based on the actual needs of existing jewelry enterprises or jewelers to meet the needs of these old customers in a targeted manner.

(8) Focus on market segments

Jewelry enterprises and jewelers are the main target customer base of HY Jewelry Company's jewelry supply chain finance business. HY Jewelry Company will also provide customers with credit services using jewelry as collateral. In fact, in the entire supply chain finance market, jewelers and jewelry enterprises are only a small

part of the customer base. HY is a professional jewelry company and the main purpose of its supply chain finance business is to stimulate jewelry sales, so it should focus on market segments, and implement competitive strategies according to the actual needs of target customers in the market segments, in order to provide targeted supply chain financial services to target customers such as jewelers and jewelry enterprises.

CHAPTER V

IMPLEMENTATION GUARANTEE FOR COMPETITIVE STRATEGY FOR HY JEWELRY COMPANY'S SUPPLY CHAIN FINANCE BUSINESS

After formulating the competitive strategy plan, it is necessary to formulate the implementation mechanism for the competitive strategy plan to ensure the implementation of the contents of the plan. The scientific nature of the competitive strategic plan and the implementation guarantee mechanism for the plan are closely related to the successful implementation of the competitive strategic plan. Currently, in the process of implementing its competitive strategy, an enterprise must formulate a guarantee mechanism that fully matches its competitive strategy plan. On one hand, it must ensure that the competitive strategy implemented by it is highly compatible with its corporate culture, system and values, and on the other hand, it must ensure that its existing core resources can highly match the implementation of the competitive strategy, such as the funding system, human resource allocation and organizational structure, etc. Through the coordination of various departments within the organization, the reasonable allocation of internal and external resources, it should ensure that the competitive strategy plan formulated by it is effectively implemented. In the process of formulating and implementing a competitive strategy, it is also necessary to make adjustments to the enterprise's systems and processes, especially to readjust its public relations marketing and cultural systems to ensure that its system, values, organizational structure, capital system or human resources allocation, etc. can be highly compatible with its competitive strategic plan.

HY Jewelry Company needs to fully understand the actual asset situation and operating characteristics of customers such as jewelers and jewelry enterprises, and formulate the implementation guarantee mechanism for the competitive strategy in

light of the development status of the jewelry industry. The Company divides the existing target customers into three types: brand companies, backbone companies and growth companies, implements the principle of differential treatment according to different types of target customers, and provides targeted financial solution service solutions. HY Jewelry Company strives to give full play to the advantages of the five-party model and provide jewelry supply chain financial products based on the actual capital requirements of target customers. This paper will then explain in detail the guarantee mechanism for the Company's implementation of the competitive strategy.

5.1 Organization Matching

5.1.1 Lending Department

HY Jewelry Company should formulate its internal organizational structure based on the competitive strategy for its supply chain finance business. As shown in Figure 5.1, the HY Jewelry Company's Supply Chain Finance Department is mainly divided into the Lending Department, Platform Operation Department, Asset Management Department, Finance Department and Jewelry Appraisal Center. The Lending Department will be responsible for formulating a development plan based on the Company's overall development, and building a complete reception system in combination with the Company's actual development of supply chain financial business; be responsible for strictly reviewing various materials in the Company's lending business, including the legality, integrity, and compliance of supply chain financial contracts, etc. and properly handling bad debts and follow-up investigations after the grant of loans. The Platform Operation Department is mainly responsible for managing the web content of the Company's online jewelry supply chain finance, implementing the Company's operating rules, effectively publicizing the Company's online APP project, reporting to the Company's board of directors and general

manager on the jewelry supply chain, the development status of financial business and subsequent planning and doing a good job in the operation, maintenance and management of the Company's IT network platform and various private networks. The Asset Management Department is generally responsible for drafting and preparing materials such as the loan contract between the Company and customers and handling a series of disputes during the repayment period, including the handling of bad debts. The Finance Department is responsible for analyzing and summarizing annual reports and financial statements of the old company during the supply chain finance business. The Jewelry Appraisal Center is mainly responsible for appraising the collateral provided by customers, that is, the value of jewelry, and issuing professional appraisal reports. For the Company's jewelry supply chain finance business, the appraisal result of the Jewelry Appraisal Center will directly determine the follow-up development of the business.

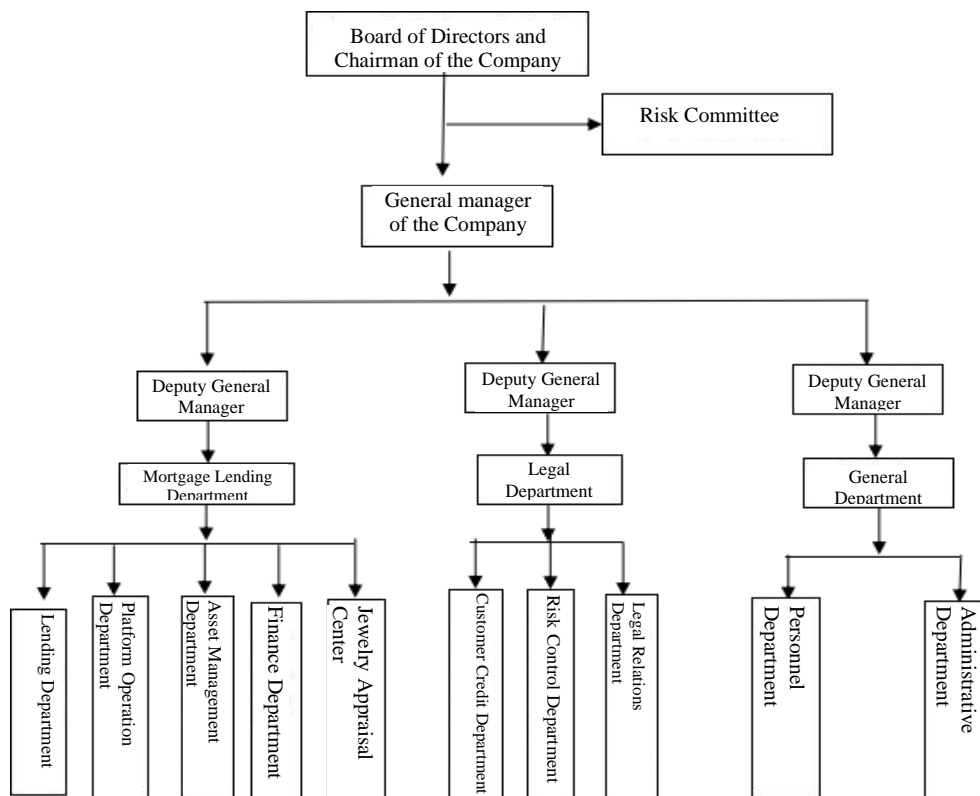


Figure 5.1 Division of HY Jewelry Company's Supply Chain Finance Business Segments

5.1.2 Legal Department

The development process of jewelry supply chain finance business involves financial asset management and legal disputes between the Company and its customers. Therefore, HY Jewelry Company must set up a special legal department to serve the jewelry supply chain finance business. Under the Company's Supply Chain Finance Business Department, there will be three main departments: the Legal Department, the Customer Credit Department, and the Risk Control Department. Among them, the Legal Department will be mainly responsible for appraising customer credit, issuing professional legal opinions during the Company's jewelry supply chain finance business, determining the loan relationship between the Company and its customers, and doing a good job in the follow-up investigation of customers' subsequent repayment and auction of collateral. The Customer Credit Department will be mainly responsible for market research, selecting high-quality jewelry enterprises and jewelers and other customers for the Company, and reviewing borrowers' loan applications, including the borrowers' loan qualification and credit level, etc. The Risk Control Department is mainly responsible for strict review, appraisal and control of a series of risks faced by the Company during the development of jewelry supply chain finance business, to avoid a large number of bad debts in the course of business development as much as possible.

5.1.3 Risk Committee

HY Jewelry Company may face a series of risks when developing supply chain finance business. In order to strengthen the strict management and control of these risks, it is necessary for HY Jewelry Company to establish a professional risk committee to be responsible for risk management. The members of the Risk Committee include the chairman, general manager and managers of major

departments. In addition, in order to ensure the smooth implementation of the risk management and control work of the Risk Committee, it is also necessary to have a risk committee secretary matching the Risk Committee, who is mainly responsible for drafting and preparing materials for the Risk Committee to hold risk control meetings. In the course of the work of the Risk Committee, a high degree of independence must be ensured to ensure that the Company's Jewelry Supply Chain Finance Business Department will not cause any interference to the work of the Risk Committee. Only an independent Risk Committee can truly make effective supervision of the Company's jewelry supply chain finance business, to ensure that risk management and control can be strengthened from the Company's overall strategy.

5.1.4 Human Resource Matching

In the development process of HY Jewelry Company, in order to develop the supply chain finance business, the existing human resource structure has many problems and is not enough to effectively implement the Company's competitive strategy for supply chain finance business. Therefore, it is necessary for HY to make reasonable adjustments to the existing human resource structure. By establishing a sound performance appraisal mechanism, employment mechanism and incentive mechanism, HY can ensure that the existing human resource strategy is highly compatible with the Company's future competitive strategy to ensure that the Company will not have talent problems in the process of implementing competitive strategies.

5.1.5 Optimization of Talent Structure

HY Jewelry Company shall establish a human resource system supporting the jewelry business and ensure the introduction of more versatile talents related to advanced jewelry supply chain finance, who need to master the knowledge about

jewelry sales business in addition to the professional knowledge related to jewelry supply chain finance business. Therefore, the Company must strengthen the recruitment and training of versatile talents to optimize its existing human resource structure and promote the smooth development of its jewelry supply chain finance business.

From the perspective of employee recruitment, HY Jewelry Company can, according to the existing overall development plan and competitive strategy, understand its talent requirements during the implementation of the jewelry supply chain finance business, and formulate talent demand plans on this basis. For example, the Company's legal department requires talents to master the relevant legal knowledge in the field of not only the lending finance but also the jewelry supply chain finance. HY Jewelry Company must master the annual and quarterly planning for the development of the jewelry supply chain finance business before it formulates a detailed and comprehensive talent recruitment plan on this basis to ensure that the professional talents recruited later can be highly consistent with its development of jewelry supply chain finance business.

From the perspective of employee training, in addition to effective talent recruitment, HY Jewelry Company also needs to establish a strict and sound talent development mechanism. According to its actual talents for the jewelry supply chain finance business, it needs to formulate a talent development plan, especially developing professional talents highly consistent with the needs of key positions so that its worries about the development of the jewelry supply chain finance business can be solved and an efficient and scientific talent structure can be established.

5.1.6 Innovation in Employee Relationship

After optimizing the Company's original talent structure, HY Jewelry

Company will introduce a large number of excellent versatile talents, which also indicates that there will be a variety of new interpersonal problems between its new and old employees. This requires the Company to establish a sound incentive mechanism and employment mechanism so that the Company's employees can achieve full cooperation and jointly promote the development of the Company's jewelry supply chain finance business.

In the process of establishing and optimizing the talent structure, HY Jewelry Company must find solutions to attract and retain talents, especially to retain talents. To develop the supply chain finance business is a long-term strategic plan of HY Jewelry Company, which requires relevant staff to regard this work as a long-term systematic project. The jewelry industry to which HY Jewelry Company belongs is special. In addition to the professional knowledge of the supply chain finance business, relevant talents must also fully understand the professional knowledge of the jewelry industry. At present, the Company often lacks professional financial talents related to the supply chain finance when developing supply chain finance business. Therefore, it is necessary for HY Jewelry Company to establish a strict and sound incentive mechanism to enable employees to give full play to their individual initiative and enthusiasm during the Company's development of the jewelry supply chain finance business, and to encourage employees through both material and spiritual incentives to improve themselves and play their role during the Company's development of the jewelry supply chain finance business.

5.1.7 Establishment of Performance Evaluation Mechanism

During the establishment and implementation of a competitive strategy, HY Jewelry Company also needs to establish a strict and sound performance evaluation mechanism to effectively evaluate the implementation effect of its competitive

strategy. Scientific and quantitative evaluation results can often help the Company's management understand the implementation effect of the competitive strategy, and make reasonable adjustments to the existing competitive strategy and guarantee mechanism based on the evaluation results to ensure that the Company's competitive strategy can be implemented and play its due role.

The main method of performance evaluation is to evaluate the salary of employees. In addition to the basic salary and performance salary, the remuneration package for the employees in the supply chain finance department of HY Jewelry Company also includes welfare subsidies and post salaries, five social insurances and one housing fund as well as holidays. Performance salary is based on the results of the performance evaluation. Compared with the sales department, all divisions of the supply chain finance business department need to cooperate in the process of developing the jewelry supply chain finance business, so team performance is more important. HY Jewelry Company will also formulate monthly plans and annual plans. Each department will formulate departmental plans based on the monthly and annual plans developed by the Company. The Company will determine the team performance based on the specific results of each department completing the departmental plans, and pay performance salary according to the team performance. Post salary of an employee is mainly related to the position of the employee. HY Jewelry Company will pay post salaries to employees on a quarterly basis. If an employee's on-the-job performance fails to meet the corresponding standards, the Company will appropriately reduce the post salary of the employee.

5.1.8 Capital Safeguards

When developing the supply chain finance business, HY Jewelry Company needs strong financial strength to provide customers with abundant capital. This

requires the Company to establish a strict and sound capital safeguard mechanism to ensure that the capital chain will not break during the development of the supply chain finance business.

5.1.9 Setting of Risk Margin Pool

The risk deposit established by HY Jewelry Company is RMB 60 million, and all the capital come from the Company's shareholders. In addition, the Company has specially opened a capital depository account in a commercial bank, so its daily production and operation activities will not be confused with the capital in the risk margin pool. This can effectively protect the legitimate rights and interests of investors and fully protect the legality and compliance of the Company's development of the jewelry supply chain finance business.

5.1.10 Custody in a Third-party Bank

HY Jewelry Company mainly carries out the supply chain finance business with the capital depository model, and will mainly entrust a third-party bank to be responsible for the custody of its funds. HY Jewelry Company has opened two separate accounts in total, namely the jewelry sales account and the capital account of supply chain finance business. These two accounts are independent of each other during the Company's business operations, which can ensure the Company's sales revenue will be confused with the capital of the supply chain finance business.

5.1.11 Establishment of an Internal Bank

In order to strengthen the financing of different projects and realize the reasonable allocation and rapid circulation of internal capital resources, HY Jewelry Company has specially established an internal bank. The Company will deposit all project profits in the internal bank, and then directly withdraw capital from the internal bank once there is a shortage of capital during the implementation of major

projects, which makes the Company's capital for the jewelry sales business and the supply chain finance business can be shared and the capital between different projects can be freely circulated. This can undoubtedly help the Company to rationally allocate existing internal capital resources and solve the Company's funding problems during the development of the jewelry supply chain finance business.

5.2 Technical Support of Lending Platforms

5.2.1 Processing of Platform Big Data

When developing the jewelry supply chain finance business, HY Jewelry Company statistically analyzes customers based on the big data of the online lending platforms to accurately identify target customers. After fully grasping the daily operating data of jewelers and jewelry enterprises, HY Jewelry Company has specially established a model to evaluate the customers' credit rating, repayment willingness and repayment ability based on the operating data of customers and the business experience of jewelry companies. The big data platforms can help jewelry companies find some potential customers with high credit levels. Business personnel of jewelry companies can actively contact customers to promote the rapid development of the jewelry supply chain finance business. The online big data platforms can also help the Company establish a personal integrity profile. Even if a customer is not a jewelry customer, the customer's credit level can be evaluated through the Internet platforms. If the evaluation results prove that the customer has a high credit rating, the Company can also decide to provide a credit loan for the customer. In addition, the online big data platforms can also effectively identify and monitor illegal activities in the supply chain finance business, helping the Company strengthen the risk management and control during the development of the supply chain finance business.

The online platform of HY Jewelry supply chain finance has incomparable advantages in risk management and control. This is because after the loan applicants submit loan applications on the online platforms, jewelry companies can use the big data in the online platforms to understand the loan applicants' credit information and capital lending information and comprehensively evaluate the credit rating and repayment ability of loan applicants. The evaluation results will also serve as an important reference for jewelry companies to handle the supply chain finance business.

When effectively preventing and controlling supply chain financial risks, HY Jewelry Company must give full play to the role of platform big data, and strengthen the prevention of financial risks by realizing data sharing, so as to promote the smooth development of its jewelry supply chain finance business.

5.2.2 Development of APP and Website

To smoothly promote the development of the supply chain finance business, HY Jewelry Company begins to develop an APP and website related to the supply chain finance business. The website mainly includes the following four functional modules:

First, the information release and matching module, which can help the Company find potential target customer groups, and review loan applicants and their loan applications. Loan applicants can directly register and log in the website through this module and publish loan applications. The relevant staff of the Company will directly review the loan applications on the platform.

Second, the credit rating and quota approval module, which will be mainly used to collect and evaluate the credit information of the loan applicants, and determine the loan amount of the loan applicants based on the evaluation result of

their credit rating. In the evaluation of credit ratings, it is necessary to effectively evaluate the loan information of the loan applicants to ensure that all loan information is authentic and reliable. This is the key to obtaining true and reliable evaluation results. In addition, HY Jewelry Company shall also adjust the available quotas of supply chain finance in real time according to the operations and repayment behaviors of the loan applicants in the online lending platforms. For example, when the credit rating of a loan applicant is raised, HY Jewelry Company should appropriately increase the available quota of its supply chain finance.

Third, the electronic contract signing module. After the approval of the credit rating and quota is completed, an electronic contract can be signed directly with the help of the online platform. After an electronic contract is signed, the borrower and the lender establish a formal loan relationship. The electronic contract has legal effect.

Fourth, the capital settlement module. After an electronic contract is signed, HY Jewelry Company needs to transfer capital to the customer's bank account in accordance with the provisions of the electronic contract.

5.2.3 Maintenance of APP and Website

HY Jewelry Company needs to operate and maintain the website after establishing an APP and a professional website.

First, clarifying the number of days to keep access logs. HY Jewelry Company will analyze the access data of logged-in customers to fully understand the actual needs, credit ratings and other important information of customers. For the logged-in customers on the website, HY Jewelry Company can choose to keep all of their information, and accurately and continuously analyze such information to understand the actual needs of the customers and provide the customers with targeted jewelry supply chain financial products. The customers not logged in on the website are not

the Company's value customers. If the access logs of these customers are kept permanently, it will greatly increase the amount of useless data in the system. Therefore, the access data of these customers can be kept for less than 90 days. The access data of customers not logged in, which is kept for over 90 days, can be automatically deleted.

Second, permanently keeping the credit review certificate. Credit review vouchers can be used to prove the customers' credit ratings. HY Jewelry Company also needs to continuously evaluate the customers' credit ratings based on the credit review vouchers. From the perspective of HY Jewelry Company, when the Company signs a loan contract with a customer, it will mainly refer to the customer's credit rating. The higher the credit rating of the customer, the higher the value, which is more conducive to the Company's risk management and control. Therefore, it is necessary to permanently keep customers' credit review vouchers in the website, and back up these materials to avoid the loss of the customers' credit review vouchers and other related information, which will bring unnecessary losses to the Company's development.

Third, permanently saving the PDF file of the transaction contract. During the period when providing customers with the supply chain finance business, HY Jewelry Company will directly sign electronic contracts saved in PDF format with customers. Jewelry companies must save these electronic contracts permanently and also needs to backup them.

Fourth, clarifying the failure response time and monitoring frequency of the platform. Operation and maintenance personnel must monitor the operation of the platform 24 hours a day. Once a problem is found in the operation of the platform during the monitoring process, they must immediately solve the problem. At the same

time, the Company must clarify the monitoring frequency of the platform as the monitoring frequency of different services is different, in order to effectively improve the Company's monitoring efficiency of the platform.

Fifth, keeping user information strictly confidential. HY Jewelry Company must encrypt data and is strictly prohibited from leaking customers' personal information. Only when the security and stability of customers' data is fully guaranteed can customers trust the online trading platform of HY Jewelry Company and be willing to cooperate with HY Jewelry Company.

Sixth, other safeguards. HY Jewelry Company shall dispatch operation and maintenance personnel to strictly supervise the network operating system and ensure the uninterrupted operation 24 hours a day; firewalls or anti-virus software can be purchased specifically for preventing hackers from attacking the operating website; the most advanced key technology is used to keep the personal information and contract information in the website confidential and prevent all kinds of private information from being leaked.

5.3 Risk Control Mechanism

5.3.1 Strict Customer Risk Assessment

Whether HY Jewelry Company can successfully carry out the supply chain finance business depends on the establishment of a strict and sound customer risk assessment mechanism. Only by scientifically and comprehensively assessing customers' risks, strengthening customers' financial analysis, cash flow analysis and repayment willingness analysis can it fully grasp a series of risks arising from the development of the supply chain finance business. Target screening can be carried out through the customer risk rating mechanism, and preferential interest rates and policies are given to high-quality customers with good credit and low risk.

First, financial analysis. Before carrying out the supply chain finance business, the supply chain finance business department of HY Jewelry Company needs to fully grasp the customers' internal operating data, and evaluate the customers' repayment willingness, repayment ability, and overall risks based on the internal operating data. During the period of financial analysis, the most common evaluation indicators include the debt-to-assets ratio, asset-liability ratio, quick ratio, current ratio and other indicators. A comprehensive analysis of the above financial indicators is helpful to grasp the profitability and repayment willingness of customers.

Second, cash flow analysis. The supply chain finance department of HY Jewelry Company also needs to fully analyze the source of customers' repayment. It is necessary to strengthen the in-depth analysis of the customers' net cash flows and manage the customers according to the customers' repayment ability. Tier 1 customers have high solvency, which means that they have stable cash flows in daily production and operation activities and can repay debts by using their daily stable income; tier 2 customers have high repayment ability and willingness although their net profit is negative; tier 3 customers cannot use daily operating income to repay debts and have to repay debt by auctioning fixed assets or shares as their net profit from daily production and operation activities is negative; tier 4 customers are unable to repay not only debts with daily operating income, but also their loans on time even if fixed assets or shares are auctioned; tier 5 customers hardly have any repayment ability, so loans shall not be issued to such customers.

Third, industry risk analysis. HY Jewelry Company takes jewelry enterprises and jewelers in the jewelry industry as its main service objects. Therefore, when developing the supply chain finance business, it faces uniform industry risks. In addition, HY Jewelry Company fully understands the development status of the

jewelry industry, and can comprehensively analyze the customers' operating cost, business cycle and industry characteristics based on the experience and data accumulated in the jewelry industry, which can help it strengthen analysis and understanding of customer risks.

Fourth, management risk analysis. HY Jewelry Company shall strengthen the in-depth analysis of a customer's internal management structure, solvency and operating status. If the customer is found to have internal and management problems, then it is very likely that there will be a repayment risk after the customer obtains the loan. For example, when jewelry enterprises and jewelers fail to build a sound internal management organization, lack scientific and reasonable long-term planning and strategies, frequently change their development strategies and operation strategies, and their leaders or leadership style often changes in their business activities, the above-mentioned series of problems may lead to changes in the customers' repayment ability and willingness, and even lead to repayment risks due to internal management problems.

Fifth, repayment willingness analysis. Before granting a loan, HY Jewelry Company needs to strengthen the analysis of the borrower's repayment willingness. The results of the analysis will directly determine the risk of the loan. If the borrower lacks good repayment willingness, the risks faced after the loan is granted are relatively high. For example, in the analysis of the borrower's repayment willingness, it is found that the customer's own financial information is false or altered, the customer's credit rating is low, the customer has defaulted in the previous cooperation, and the customer's loan application is rejected by a commercial bank, all of which prove that there is a problem with the customer's repayment willingness; it is necessary to be cautious and strengthen risk assessment in the face of such customers.

5.3.2 Strict Control of the Supply Chain Finance Process

First, strictly investigating the source of pledged jewelry. The supply chain finance department of HY Jewelry Company needs to first conduct a detailed and thorough investigation of customers' pledges to ensure that the pledges provided by customers have a high degree of legality and compliance. In addition, the staff of the supply chain finance department also needs to fully understand the market price changes of the collateral in order to scientifically and effectively evaluate the value of the collateral.

Second, reasonably evaluating the price of mortgaged jewelry. HY Jewelry Company must scientifically and reasonably assess the market value of jewelry from the development status of the jewelry market and also need to make a regular market inventory to ensure that all mortgaged jewelry received by the Company can be realized immediately and the asset value of all mortgaged jewelry received by the Company is fully grasped.

Third, attaching importance to the compliance of mortgage registration procedures. The staff of HY Jewelry Company need to go through the mortgage registration procedures in accordance with the relevant procedures established by the Company after further reviewing the value of the collateral, and ensure the compliance and legality of the whole process as much as possible to avoid the changes in the ownership of the collateral during the mortgage registration process.

Fourth, providing more training for supply chain finance staff. The development of the supply chain finance business puts forward higher requirements for the professionalism of the staff. HY Jewelry Company also needs to strengthen the training of personnel to enable the staff master more professional knowledge related to the supply chain finance business and develop risk awareness so that they can

exercise strict self-discipline in their daily work, ensure the compliance and legitimacy of their business, and strengthen the risk management and control of the supply chain financial business as much as possible.

Fifth, making the mortgage contract more effective. Before signing a mortgage contract with a customer, HY Jewelry Company needs to verify the ownership of the items involved in the contract, and try to avoid legal problems in the subsequent mortgage registration and loan granting process.

5.3.3 Sound Credit Evaluation System

First, establishing a corporate credit reference system. It is necessary for HY Jewelry Company to establish a customer credit evaluation system and strengthen the evaluation of customers' credit ratings, which will help the Company fully understand the use of capital obtained by customers and the legality of use, and strengthen the Company's risk management and control of the jewelry supply chain finance.

Second, establishing a sound credit rating system. HY Jewelry Company can establish a sound and scientific credit rating system and scientifically and accurately evaluate the credit of the Company according to the scale of assets, profitability, credit rating or solvency of the Company. The evaluation results will be used as the key basis for the cooperation between HY Jewelry Company and its customers.

Third, establishing a good external environment. The networking and virtualization is the only way for the development of future financial business. The Internet platforms can effectively improve the efficiency of the supply chain finance business. HY Jewelry Company can establish credit accounts for customers, and strengthen the credit evaluation and management of each customer. If a customer's credit rating is already lower than the Company's basic requirements, the Company needs to blacklist the customer, and no longer cooperates with the customer.

Strengthening the overall management and control of customer credit ratings can not only improve the risk management and control capabilities of jewelry companies' supply chain finance business, but also urge customers to strengthen self-management and improve their own credit level.

5.3.4 Third-party Guarantee Company

In order to strengthen the risk management and control of supply chain finance, HY Jewelry Company will entrust a third-party guarantee company to provide guarantee services for customers.

First, the legality of the guarantee. When entrusting a guarantor, HY Jewelry Company must ensure that the guarantor is a qualified guarantor who is over 18 years old and has no records of untrustworthy or illegal acts, and judge the legality and compliance of the collateral. The relevant laws of China clearly state that any individual or organization may not mortgage the ownership of a piece of jewelry and it can only mortgage the right to dispose of and use the jewelry. If a piece of jewelry has been seized or sealed up by the state according to law, or obtained by fraud or theft, it cannot be mortgaged in any form.

Second, the effectiveness of the guarantee. When developing the supply chain finance business, HY Jewelry Company needs to fully verify all the documents signed during its business processing, and check whether there are illegal or unsigned documents.

Third, the adequacy of the guarantee. When reviewing the lending business, HY Jewelry Company mainly reviews the adequacy of its guarantee from the aspects such as the guarantor, jewelry appraisal, repeated mortgage of the collateral, and the value of the collateral.

5.3.5 Strict Jewelry Review Process

First, application. After a customer applies to HY Jewelry Company for supply chain finance or jewelry evaluation, HY Jewelry Company accepts the customer's application, and designates professionals to be responsible for subsequent business processing. When applying, the customer needs to fill in the Application to HY Jewelry Company for Jewelry Supply Chain Finance first, and then hand it over to the staff of the Company's supply chain finance department.

Second, process review. After receiving the business application submitted by the customer, HY Jewelry Company needs to review the application submitted by the customer. First, the supply chain finance department needs to be responsible for reviewing the customer's application, including the customer's application qualifications and the appraisal report on the mortgaged jewelry. Second, the appraisal center will appraise the market value of the mortgaged jewelry within one working day. The evaluation result of the market value of the mortgaged jewelry will directly determine the customer's line of credit. Generally speaking, the customer's line of credit shall be controlled within 70% of the market value of the mortgaged jewelry. Then, after the customer agrees to the Company's line of credit, the Company needs to issue a letter of loan commitment and a notice of the applicant's loan approval to the customer, who shall sign and confirms the content of the notice and the letter after carefully reading it. If the customer does not agree with the content in the notice and the letter, the staff of HY Jewelry Company will immediately return the pledged jewelry to the customer and stop the business.

Third, mortgage registration. After HY Jewelry Company and the customer sign the supply chain finance contract, the asset management department must immediately go through the registration procedures for the mortgaged jewelry.

Fourth, after completing the above three processes, HY Jewelry Company must transfer loan capital to the customer's bank account within one working day after signing the loan contract.

CHAPTER VI
PRACTICE AND COMPARATIVE ANALYSIS OF JEWELRY SUPPLY
CHAIN FINANCE

Established in 1994, HY Jewelry has established a sound chain sales service system after nearly 30 years of development. However, subject to the regional barriers of the jewelry industry, its sales volume hit a bottleneck before it developed the supply chain finance business: its total sales volume has been basically flat and failed to achieve sustained growth for three consecutive years. In addition, the Company also realized in the course of its business operations that jewelry enterprises need more powerful financial support to break the regional barriers of the brand and further expand the market in other regions. Commercial bank loans often require fixed assets as collateral, while the most core assets in the jewelry industry are jewelry products, so it is difficult for jewelry enterprises to obtain loans smoothly through banks. After HY Jewelry realized this problem, it began to explore whether it could carry out the supply chain finance business based on the raw materials, semi-finished products or finished products in the supply chain, so as to obtain financial support. On the one hand, it could greatly solve the financial problems of jewelry enterprises in the development process, and realize supply chain finance. On the other hand, it can also promote the transformation and upgrading of jewelry enterprises and broaden the development market of jewelry enterprises.

HY Jewelry has gradually formed a corresponding business system during the practice of the supply chain finance business, continuously invigorating its development and promoting the steady increase of the overall business with the continuous expansion of the supply chain financial business. Driven by the supply chain finance business, the traditional sales business of the original products of HY

Jewelry for the past 5 years has achieved an average annual growth rate of about 15%. This is a very promising growth rate in the context of China's economic downturn in recent years. Due to the development of the supply chain finance business, the Company has gradually overcome the problems in the links such as customer development, product evaluation, loan recovery, and pledged product realization at the initial stage of business development, achieving leapfrog development, and enhanced the business volume in the supply chain sector from RMB 0 to RMB 300 million, contributing more than 40% to the Company's profits. Through the development of the supply chain finance business, HY Jewelry has significantly increased the development speed of its original sales business and broadened profit channels, continuously energizing its rapid and stable development.

Table 6.1 Business Scale and Growth of HY Company

Year	Sales revenue (RMB 10,000)	YoY sales revenue growth	Loan revenue (RMB 10,000)	Loan revenue growth
2015	38973	-	4176	-
2016	45871	17.70%	7852	88.03%
2017	53623	16.90%	13375	70.34%
2018	61506	14.70%	21171	58.29%
2019	70794	15.10%	33142	56.54%

Table 6.1 Profit and Proportion of Business of HY Company

Year	Total net profit (RMB 10,000)	Net profit from sales (RMB 10,000)	Proportion of net profit from sales	Net profit from loan business (RMB 10,000)	Proportion of net profit from loan business
2015	2970	2611	87.9%	359	12.1%
2016	4077	3440	84.4%	636	15.6%
2017	4989	3646	73.1%	1343	26.9%
2018	6661	4478	67.2%	2183	32.8%
2019	8874	5310	59.8%	3564	40.2%

Established in 2010, Anhui XG Jewelry Company was a jewelry retail channel provider, mainly operating chain jewelry malls. It has more than ten direct-sale jewelry malls across the country, providing large jewelry malls and individual consumers with a series of products for which it acts as an agent. By operating new jewelry malls to expand business, it adopts a multi-brand centralized monopoly model, which better makes up an insufficiency of a single franchise store in multi-brand, multi-grade, multi-variety, multi-specification and other multi-choice spaces, and highlights the clustering effect of brands. XG Jewelry partially implemented financial services for end consumers, and provided customers with pledge financing services for jewelry accessories of its jewelry malls so that customers could carry out product pledge financing from XG Jewelry with the jewelry products purchased by them when they were in urgent need of money, which better promoted the development of its sales business, and its operating income increased from RMB 625 million to RMB 875 million between 2016 and 2018. XG Jewelry had a significant influence in the local region, but its jewelry supply chain finance was only carried out in the sales of its products. Although the sales business was also steadily improved in the early stage, its business development encountered bottlenecks again after the rapid development of terminal sales jewelry finance in the early stage as it had failed to develop more in-depth and comprehensive jewelry supply chain finance and lacked financing channels for jewelry products. Due to single source of income and profit, its operating income in 2019 decreased by 20% year over year in the environment of market fluctuations and financial difficulties. If XG Jewelry used its industry and regional influence to carry out comprehensive jewelry supply chain financial services and provide local consumers and jewelry enterprises with jewelry financing business,

it could avoid the development bottleneck that a single growth model is easy to encounter, and obtain a wider profit channel for new business.

Established in 2011, Shanghai ZTJ Company mainly engages in the retail and wholesale business of jewelry. It purchases jade, gold jewelry, inlaid jewelry and gemstone handicraft products in a centralized manner, and sells them through retail and wholesale. Its sales structure is mainly jade products, accounting for about 80%, followed by gold and diamond inlaid jewelry. Shanghai ZTJ Company has great influence in jade products. Its sales scale increased from RMB 700 million in 2016 to RMB 920 million in 2018. Like traditional jewelry enterprises, ZTJ also encountered regional barriers and capital bottleneck in the development process. After the rapid development in 2016-2018, it encountered jade product market fluctuations, financing difficulties and other problems as it had a simple business structure and mainly raised funds from banks. Its business was greatly affected and its annual operating income in 2019 fell by 30% year over year; in 2020, it fell into more serious capital problems, resulting in operating income of only RMB 80 million and a loss of RMB 30 million. If ZTJ could provide supply chain financial services for customers and supply chain enterprises by using its deep influence in local regions and combining retail and wholesale business in the early stage, it would be able to better develop new business growth points and avoid the risks of single business operations and financing channels. Due to its unique and professional jade services and complete evaluation and sales channels, it had a good basis to carry out the supply chain finance business for jade products, which greatly promoted the expansion of its retail and wholesale business, and realized the leapfrog development of the jewelry supply chain finance business by providing jewelry financial services for its downstream enterprises and other jewelry enterprises. In addition, if it could finance through its jewelry products

when it encountered financial difficulties in 2020, it would also be able to better overcome the difficulties and bottlenecks encountered in its business development.

Established in 1996, Henan YHZ Jewelry is a brand chain company engaged in jewelry design and sales. It is committed to the design, promotion and channel construction of its own brand products. It sells diamond series and colored gemstone series products through customized production, and sells precious metal series, jade series and pearl series products through purchase to end consumers in the form of self-operated stores. YHZ Jewelry Company's operating income in 2015 was nearly RMB 250 million and the net profit exceeded RMB 20 million, while the operating income in 2016 was RMB 360 million. However, due to product market price fluctuations and investment errors, it did not hedge the gold lease financing obtained from the Industrial and Commercial Bank of China. In 2016, the sharp rise in the price of gold led to a substantial loss of RMB 58 million in repayment, including an investment loss of RMB 18 million. In addition to the maturity of bank loans in 2015 and private lending runs, its capital chain broke at the end of 2016. Its operations were paralyzed due to serious staff turnover, a large amount of overdue borrowings, lawsuits, judicial freeze and other reasons. According to its annual report, its balance of payments for goods was RMB 450 million at the end of 2016, of which gold stocks were RMB 330 million, but the gold stocks had already been pledged for bank loans and could not be realized. The stocks of diamond, ruby, sapphire and spar products were still as high as RMB 95 million. If HYZ could finance through the supply chain finance of jewelry products at that time, it was expected to obtain RMB 50 million to RMB 60 million to help it tide over the difficulties and avoid its bankruptcy due to capital fracture.

CHAPTER VII

EXPECTED RESEARCH CONTRIBUTIONS AND PROSPECTS

In the context of the integrated development of global economy, the living and consumption standards of residents have been greatly improved. Especially after the reform and opening up, China's jewelry industry has entered a stage of rapid development, and currently achieved a dominant position in the consumption system. However, the reform and opening up has also introduced a large number of international competitors to China's jewelry market, making the market competition in China's jewelry industry intensified especially under the guidance of national policies. At present, there are extremely serious product and service homogeneity problems in the jewelry industry. The early jewelry competition was product competition, while the current jewelry competition has long evolved into marketing competition. After the global economy has entered a downward state, the development of the luxury goods industry has also entered a cold winter period, which has brought many challenges to the development of China's jewelry industry. In particular, there are many problems in China's jewelry industry, such as lack of standardized and scientific management and advanced industrial technology. In the future, jewelry companies must seize the opportunities of the development of the times, meet the challenges of the development of the times, and effectively avoid risks to find living space for sustainable development. After the adjustment of national monetary policies, commercial banks began to tighten bank loans, and small and medium business operators in the market could no longer obtain loans from commercial banks. The jewelry industry is a capital-intensive industry. After commercial banks tightened their loans, many jewelry companies and jewelers could only choose to raise funds from jewelry enterprises to obtain capital to support their

daily production and operation activities. Many jewelry enterprises begun to offer small loans to jewelers and jewelry companies, but such business often require jewelers or jewelry companies to provide real estate or vehicles as collateral, and the loan interest rates were generally high, which basically could not satisfy the financing needs of jewelers and jewelry companies.

HY Jewelry Company has been operating in the jewelry industry for more than 20 years, and currently has strong capital and funds to develop jewelry mortgage business. The development of the supply chain finance industry in China is growing vigorously, but the internal and external environments are extremely complex. HY Jewelry Company also lacks definite and clear strategic planning and sound internal management mechanisms and operating mechanisms, which causes HY Jewelry to face many difficulties when developing the jewelry supply chain financial business. This paper focuses on analyzing a series of problems faced by HY Jewelry Company when developing the supply chain finance business, establishes Five Forces Model based on the corporate competitive strategy management theory put forward by academia to analyze the internal and external competition environments of HY Jewelry Company, adjusts the strategic positioning of HY Jewelry Company for developing the jewelry supply chain finance business, and formulates the competitive strategy plan and guarantee mechanism of HY Jewelry Company for the supply chain finance business. Through the research of this paper, I discovered the regional competitive strategy and market centralized competitive strategy of HY's surrounding market products. This paper also proposes a series of guarantee mechanisms for implementing the competitive strategies of the Company from the five perspectives of organizational structure, capital guarantee, human resources, operating platform, and risk control. The research in this paper cannot only further enrich the theory of

corporate competitive strategy management, but also provide a realistic and feasible reference for jewelry companies to carry out the supply chain finance business. After the organic combination of theory and practice, this paper puts forward more professional and operable research results.

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