INNOVATIVE SERVICES THROUGH INTEGRATION: A CASE STUDY OF A CRITICAL INTERMEDIARY IN THE MOBILE PHONE SUPPLY CHAIN

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Abstract

An intermediary is an agent that provides necessary services between two trading parties, typically a buyer and a seller. As the Internet has made the world much more "flat" today, many traditional intermediaries have become extinct or seen their value greatly diminished. Nevertheless, intermediaries in some industries have not only survived but also continue to thrive— some have become important players in their particular industries. In this paper, we discuss innovative services offered by a progressive firm—SJET—in the mobile phone industry that is concentrated in the Pearl River Delta in southern China, where 42% of mobile phones sold globally in 2013 were produced. We examine how some new services create value for all parties involved, while also bringing challenges to the management of SJET and raising concerns over potential conflicts between SJET and its partners. We also investigate the feasibility of replicating their model beyond mobile phone industry. That is, we identify the barriers that need to be overcome if SJET plans to extend these innovative services to other industries where the main supply base is not as concentrated as the mobile phone industry is in Southern China.

SJET is located in Shenzhen city, a southern China's manufacturing hub, financial center, and major container port. SJET was established in 2007 as a spin-off from JET Technologies and Trades Inc. SJET had sales revenues of US$72 million in 2013. The volume of transactions exchanged through its technology platform was $208 million. The management at SJET sees two main roles that SJET plays in the mobile phone supply chain: (1) the coordinator of the supply chain, and (2) the project manager. The coordinator's primary job is to monitor materials flow (from components sourcing to end product delivery), provide supply chain financing, and control costs. The project manager's job is to clearly understand each customer's order and translate it into design specifications that deliver the intended values. Through working with SAP, IBM, and other partners, SJET developed its E-SCM platform for their clients to conduct e-commerce transactions. Using the internet, this platform has become the center of data exchange and integration. It also offers visibility to trace materials flow and capital flow.

Among the innovative services that SJET provides, we discuss three types of services that are particularly interesting. The first is that SJET sets up a subsidiary in Hong Kong to receive customer orders so as to decouple the order reception and production to separate locations. This setup exploits the differences in the currency and interest rates used between Hong Kong and China. It is often the case that the interest rate is lower in Hong Kong than in mainland China, thus a customer is better off borrowing capital and placing an order in Hong Kong. In addition, when products are made and delivered, the invoice can be paid in Hong Kong, which tends to have a better exchange rate and transaction costs than if the account was settled in Chinese Yuan. Such differences in exchange rates

and interest rates open the opportunities for SJET and its customers to earn the differentials and reduce costs.

Second, SJET provides a "green path" status that speeds up the clearance of customs in Shenzhen when goods are imported into or exported out of this harbor city. Due to an outstanding track record with customs, SJET was subject to fewer sampling inspections, allowing goods to move faster than other channels that do not have the "green path" status. On the other hand, SJET must guarantee the integrity of the goods in order to keep its good reputation. If SJET fails to comply with customs regulations— such as importing forbidden goods or attempting to evade import tax or tariff— the "green path" status will be suspended, and the firm will be fined and put on probation.

Third, supply chain finance (SCF) services: these services help many small and medium enterprises (SMEs) clients who are not as resourceful in acquiring funding. Many SMEs are savvy in finding market opportunities and create innovative product designs, but either do not have access to capital to start a project or lack the resources to manage its financial operations. SCF meets the needs of such situations. SCF typically involves three actors, and the benefits (and associated risks) for each of them forms an interesting relationship triangle. Each successful transaction in SCF results in a "3-way win" among the actors. If one actor is not pleased with the agreed performance or services of the other two actors, the relationship is not sustainable and the transaction may be aborted in the middle of execution.

To SJET, offering SCF is a double-edged sword: it tightens connections via data integration between SJET and its clients, be it a supplier or a buyer in the supply chain. Typically a client who would use the SCF service offered by SJET is already a user of SJET's other services, such as supply chain coordination. Given that much of the data needed for SCF comes from the same sources as regular supply chain data integration, the client increases its dependence on SJET. To SJET, SCF creates an additional source of revenues from the same client and also makes SJET a more valuable partner to the client. However, at the same time, SJET acts as a middlemen between the client and banks to provide finance. SJET must accept more risk when taking on clients that have lower credit ratings and could not borrow directly from the banks. Managing this risk exposure requires additional skill sets and resources. It brings many challenges to the company culture and organizational structure of SJET. The presentation will address these challenges and concerns.