

# Research on Cost Management of E-commerce Enterprises Based on Value Chain——Taking Suning Tesco as an Example

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**Abstract:** The e-commerce industry is developing rapidly nowadays, simultaneously, the competition between e-commerce and traditional retail companies is becoming increasingly fierce as well. Therefore, the competitive advantage of companies isn't merely decided by the production and manufacturing of internal products, but also relies on analyzing and serving external consumers, and the construction and optimization of the entire industry value chain. As an important part of the value system, cost management is of great significance in the operation and development of related enterprises. This paper takes Suning Tesco, a typical representative of e-commerce industry, as a case, combines relevant national policies and the development trend of e-commerce industry, studies the cost management of its value chain from three aspects: logistics, information flow and capital flow, analyzes the existing deficiencies, and finally proposes optimization countermeasures and guarantee measures.

## 1. Introduction

With the development of the Internet economy, the Internet economy represented by e-commerce is deeply affecting people's lives. At present, the economic impetus formed by e-commerce enterprises plays an important role in the national economy, driving the rapid development of China's economy and society. But with the increasingly fierce market competition, the electronic commerce enterprise in commodity prices and service profit margins have been squeezed, the cost advantage will become more and more electricity business enterprise goal, the case company Suning Tesco is a typical e-business enterprise, although its development is steady, with JD and Tmall electricity companies such as there is still a large gap, so it is necessary based on the viewpoint of value chain, from the perspective of logistics, cash flow and information flow analysis and improvement of cost management.

## 2. Value chain cost management and e-commerce industry

### 2.1 Value chain

Value chain, as an enterprise management tool, covers all the links of procurement, research and development, and sales in the production and operation process of an enterprise, also can be divided into internal value chain and external value chain. Among them, internal value chain refers to various internal business processes that can enhance enterprise value, which are mainly divided into basic activities and supporting activities. Basic activities refer to the basic contents of an enterprise's business activities, mainly including internal and external logistics, production and operation, marketing and services; Supportive activities are auxiliary activities that support the normal production and operation of the enterprise, including research and development, procurement, human resource management and infrastructure construction. The value chain of an enterprise's external value chain produces external value. In order to create value, enterprises need to take both internal and external value chains into consideration. They interact with each other and their influence on enterprise value increment cannot be ignored.

## **2.2 Value chain cost management**

Value chain cost management aims at the lowest cost of the value chain, and takes each activity link of the value chain as the research object. Through the comprehensive identification, collection, analysis and summary of the cost input and value output of each link in the value chain, the enterprise management can discover the existing problems at this stage and improve them so as to promote the increase in the output ratio of the cost of each link, so that the resources of each link in the value chain can be used to their maximum effect, thereby creating greater value for the enterprise and improving the entire the core competitiveness of an enterprise ultimately realizes the overall value-added of economic activities in the value chain.

With the needs of enterprise development and changes in the market environment, different from the traditional cost management concept that only focuses on the internal production cost of the enterprise, cost management based on the value chain which requires a comprehensive analysis from the perspective of the internal and external value chain, including R&D, procurement, sales, payment, logistics, and so on. Companies need to make a horizontal and vertical comparison to clarify their weak links in the value chain, so as to make up for their shortcomings while ensuring their own competitive advantages. Not only has the number of internal cost management links increased, but the scope of management objects is also expanding. This requires the management to make comprehensive thinking based on corporate strategy when making decisions, and make decisions that are conducive to the long-term development of the company.

## **2.3 Value chain management in e-commerce industry**

The formation of value in traditional retail requires the participation of many business entities such as manufacturers and suppliers. The three value flows of logistics, capital flow, and information flow run through the value chain of traditional retail. Logistics flows from suppliers to customers and funds Flow flows from customers to suppliers, and information flows unilaterally from upstream to downstream. The value flow is susceptible to fluctuations due to the influence of the market and economic environment, thereby affecting value generation. The information in it only plays a supporting role. As an important resource, it does not produce its due value.

E-commerce companies and traditional retail companies have different levels of distribution. They directly face upstream and downstream suppliers and consumers. They not only reduce the cost of enterprises by reducing redundant links in the value chain, but also enable consumers to more convenient Ways and low prices to buy your favorite products. At the same time, the flow of information in the value chain is no longer one-way through the supplier to the enterprise and then to the consumer. Not only can consumers learn about products and after-sales information, but suppliers and enterprises can also collect real-time sales data online. Understand market changes and needs, so as to better arrange production and sales, and achieve the joint optimization of the benefits of suppliers, enterprises and consumers.

## **3. Analysis of Suning Tesco's Value Chain Cost Management**

### **3.1 Company Introduction**

Suning is one of the large-scale e-commerce online shopping platforms in China, formerly known as Suning Cloud Business Group Co., Ltd., established in Nanjing in December 1990, mainly engaged in the sales of air conditioners and other home appliances. At the end of the last century, the scale of China's home appliance market expanded rapidly, competition became increasingly fierce, and even an oversupply situation appeared. From 2013 to 2016, Suning successively acquired companies such as PPTV and Tiantian Express. In view of the significant effects of O2O integration, the smart retail model has been basically established. Faced with changes in the industry, Suning decided to fully transform the retail chain. On this basis, Suning took the lead in integrating into the leading enterprise in the e-commerce industry. Its new e-commerce model of "online + offline" is far-sighted and compliant with the situation. Nevertheless, compared with e-commerce giants such as Tmall and JD,

Suning still has a big gap and room for improvement in terms of market share, profitability and cost management. Facing the increasingly fierce competition in the e-commerce industry, Suning must combine its own goals and strategic positioning to make up for its shortcomings in all aspects. Therefore, it is necessary to dismantle and analyze it from the perspective of value chain cost management.

### **3.2 Suning Tesco's value chain cost management status**

#### **3.2.1 Logistics cost management.**

Logistics distribution is an indispensable key link in the value chain of modern e-commerce enterprises. Take e-commerce giant JD as an example. After 2003, JD abandoned its offline stores and developed an online platform in an all-round way, and it also built its own logistics system to support the development of the platform. Suning is the first leading e-commerce company to transform from a traditional retail business model to an O2O model. However, it is too cautious in terms of transformation and dare not make a substantial transformation. Now Suning adopts a policy of combining self-built and logistics outsourcing. Self-built logistics is far inferior to JD in terms of distribution volume and distribution efficiency, and it can only rely on third-party logistics to a greater extent.

With the increasingly fierce competition in the e-commerce market, logistics companies' asking prices for distribution have also increased. After Suning entered Tmall, it has increased its reliance on third-party logistics such as Cai Niao Courier Station. This will naturally lead to its increase of logistics costs comparing to other outstanding companies relatively. Through the development of JD, we can find the advantages of self-built logistics system. It is directly controlled by the enterprise, so it can be controlled to a greater extent in terms of logistics costs such as distribution. At the same time, it can also enhance the corporate image by improving distribution efficiency and distribution services. It is a further optimization of corporate value. In contrast, Suning's logistics cost management still has many problems, such as the imperfection of self-built logistics and the uncontrollability of third-party logistics, which prompt Suning to make adjustments and improvements as soon as possible.

#### **3.2.2 Capital flow cost management.**

Suning's cash cycle is longer than JD's, one important reason is that JD's extensive use of a "quasi-financial" model, which means companies in the value chain can delay payment of accounts payable or increase advance receipts based on their own channels or scale advantages. Accounts and other methods occupy funds for their own use, thereby reducing operating costs. JD can use its platform's scale and channel advantages to delay payment to suppliers, thereby reducing its own operating costs. Compared with companies such as Amazon and JD, Suning's lower capital utilization rate reflects its insufficient capital flow management. From the perspective of revenue share, Suning is heavily dependent on the main business of product retailing, and other business income is less, and the source of income is relatively simple. Although Suning is also developing the installation and maintenance of home appliances and other products in recent years, it has not yet formed a scale, and its share is not large.

In addition, as to e-commerce companies, the construction and promotion of payment systems is quite important. At present, several online payment methods commonly used by consumers include Alipay, Tenpay, and UnionPay. With the increasingly fierce competition in the e-commerce market, there is room for competition in all links of the value chain, and payment methods have increasingly become the main battlefield for e-commerce giants. Suning has also developed its own financial ecosystem, namely Suning Finance. As of the end of 2018, Suning Financial has launched financial products such as Epay, Suning Wealth Management, etc., and has built a "full financial system" within the group, covering areas including loans, investment and wealth management, and consumer finance. Due to the late development and lack of influence, Suning has actively built its own financial service system, but its market share is low. Faced with the dilemma of fewer users and low utilization rate,

Suning itself also needs to rely on Alipay. The payment platform needs to pay a certain service fee to Ant Financial every year, which undoubtedly increases the cost of Suning's capital operation.

### **3.2.3 Information flow cost management.**

With the progress and development of the e-commerce industry, information processing technologies such as big data processing and cloud computing have become more and more important, which can not only improve the operational efficiency of enterprises and reduce costs, but also help enterprises to do better forecasting and planning. Therefore, increasing investment in the construction of information systems is the general trend. Modern e-commerce companies are inseparable from convenient network technology, which plays a key role in the process of connecting suppliers, online platforms and consumers, and is the basis for ensuring the smooth completion of online transactions. In the value flow of products and services from suppliers to consumers, smooth and timely information can greatly reduce opportunity costs. Information system construction requires companies to increase investment in network innovation, so it's necessary to increase investment in network technology research and development. However, in fact, although Suning's R&D expenditure ratio has risen steadily, there is still a big gap compared with JD. If R&D investment is not enough, it implies that the current level is difficult to improve and develop.

## **3.3 Suning Tesco's value chain cost management issues**

### **3.3.1 Logistics cost management issues.**

According to the data of China E-commerce Research Center in 2019, the main reasons for Suning Tesco's consumer returns and exchanges are product damage and delivery errors, which accounted for 70% of the total. Among them, product damage accounted for 41%, indicating that Suning may have paid too much attention to reducing transportation costs and packaging costs and other obvious costs in its distribution and logistics activities, and ignored the quality protection of the product itself; delivery errors accounted for 29% , which often due to errors and omissions in the process of customer order processing and errors in the picking and distribution of goods, indicating that the information processing capacity and automation of Suning logistics system are not satisfactory. With the continuous improvement of the level of economic development, the demographic dividend has gradually disappeared. However, the automation and intelligence level of Suning's logistics system has not kept up with the level of enterprise development. The result is that the increase in labor costs will significantly increase the company's Logistics costs.

### **3.3.2 Capital flow cost management issues.**

Cash flow is an important indicator for evaluating the value of an enterprise, and it has a significant impact on the company by influencing all links in the value chain. On the one hand, a more reasonable level of funds means an increase in short-term debt solvency and an increase in the company's operating capacity and bargaining power, which shows that enterprises have more competitive advantages. Obviously, compared with JD, Suning has a lower cash cycle due to its lower inventory turnover rate and accounts payable turnover rate. It shows that Suning still needs to strengthen its capital management of enterprises. In addition, from the above analysis, it can be seen that Suning's high dependence on main business income results in other businesses that are small and immature, and there are fewer economic activities that can make additional profits, which is not conducive to the flow of corporate funds. At the same time, compared with platforms such as Alipay with huge traffic, the financial service system established by Suning currently has relatively small user traffic and influence, and has limited auxiliary effect on Suning. Therefore, at this stage, Suning's mainly uses platform such as Alipay for settlement, Although it's difficult for Suning to change the current situation, there are still opportunities, which means Suning needs to increase investment in this area, especially focusing on the recruitment and training of talents.

### **3.3.3 Information flow cost management issues.**

The O2O model adopted by Suning at present requires companies to build a complete and efficient information system to coordinate online and offline while managing suppliers and consumers, so as to achieve longer-term development. However, through the previous analysis, Suning's R&D investment is relatively insufficient. In contrast, JD not only has an information system which can be used to assist enterprises in scientific management and decision-making, but also attaches great importance to R&D investment and innovation. At the same time, the huge number of users is also an indispensable part of the enterprise information system. Users can pass the relevant information of the company to other consumers, make publicity for the company, help the company achieve sales goals, increase the company's sales, and reduce the cost of information system construction. But in fact, the number of active users of Suning APP is far from that of JD and Alibaba, which largely restricts Suning's business volume and market share. At present, Suning has entered Tmall. Although Tmall has a large user base, Suning has to pay expensive franchise fees. In addition, due to the large number and variety of Tmall APP, it is difficult for Suning to attract attention and highlight its own bright spots.

## **4. Improvement of Suning Tesco's Value Chain Cost Management System**

### **4.1 Logistics cost management improvement**

#### **4.1.1 Optimize storage resource allocation.**

From a warehousing perspective, if we want to reduce warehousing costs, we need to optimize the allocation of warehousing resources to form a logistics warehousing distribution network with a moderate scale and matching needs. At the same time, we must maintain continuous investment in logistics facilities, regularly update warehousing equipment, and promote the modernization, informatization and intelligent development of warehousing operations. Nowadays, the level of mechanization and intelligence has become a key element to improve the core competitiveness of modern warehousing. If we want to better strengthen the application of high and new technology in the warehousing link, we need to introduce modern warehousing equipment in the warehousing link to improve the level of professionalization of logistics equipment. Intelligent robots can gradually replace the manual handling and sorting of goods, inventory and other tasks, thereby shorten the delivery time of goods, reduce labor costs with automated operations, also improve the efficiency and accuracy of warehousing operations.

#### **4.1.2 Increase the use of self-built logistics systems.**

According to the analysis above, Suning's low logistics asset utilization efficiency invisibly increased the logistics cost of the enterprise. In fact, Suning Tesco's self-built logistics has not achieved full coverage, but with the help of Cai Niao Logistics, it has basically achieved full coverage of logistics, so that logistics services can be extended to relatively remote areas. There is still a low utilization rate of logistics assets in the self-built logistics system, so it can be considered to appropriately reduce the use of Cai Niao logistics, or appropriately divert some orders from the Cai Niao system to the self-built logistics system, so as to improve the utilization rate of its own logistics assets. It can also complement the advantages of its partners in certain businesses. For example, it can open Suning home appliance auxiliary installation services to Tmall merchants, which can make up for Tmall's shortcomings in this regard. At the same time, the distribution of valuables such as jewelry on Tmall can be completed through Suning's express delivery, thereby increasing the use of self-built logistics systems.

#### **4.1.3 Promote fair competition in the logistics industry.**

In terms of logistics and distribution, it is possible to consider establishing an open logistics platform to enable more companies to participate in market competition fairly by creating a competitive environment for the logistics industry. At present, Suning's partners are mostly logistics companies in Cai Niao system. The obvious feature is that Cai Niao has not set clear access rules to

regulate, which will lead to the possibility that there are cooperative companies with substandard qualifications and lead to unnecessary costs such as the waste of resources. At the same time, in the process of transportation, after-sales costs due to improper operation of logistics enterprises will not only increase the logistics costs of enterprises, but also affect the corporate image. In addition, the Cai Niao logistics system is a combination of some logistics companies, this combination enables them to gain greater bargaining power in the cooperation negotiations with e-commerce retail companies, which in a sense increases the logistics costs of retail companies such as Suning. Therefore, if an open logistics platform can be established, while stimulating the vitality of the logistics industry, in order to defeat competitors and occupy a higher market share, logistics companies will largely adopt methods such as lowering their own prices and improving their own service quality to achieve their goals, and it will give retail companies such as Suning greater bargaining power.

## **4.2 Capital flow cost management improvement**

### **4.2.1 Develop its own payment platform.**

Through the previous analysis, Suning has also established its own platform, namely Suning Finance. Although there is a dilemma of small market share, few users and low utilization rate at this stage, it cannot give up the important link of the payment platform and must rely on it for a long time. Platforms such as Alipay are not a long-term solution, because not only do they need to pay a certain service fee to Ant Financial every year, which increases the cost of Suning's capital operation, but at the same time, Alipay and other payment platforms with huge user traffic may take advantage of their own advantages. Some methods weaken the competitiveness of competitors to consolidate their position. Therefore, in order to avoid such a situation, and to reduce the cost of capital flow and the cash circulation cycle, it is necessary to increase the construction and promotion of its own payment platform Epay, so as to enhance the right to speak in the market. Various supply chain financial products such as loan and order loan will better serve Suning.com.

### **4.2.2 Use an asset-light operating model.**

At present, the domestic logistics industry is developing rapidly, but warehousing and logistics resources are relatively scarce. In terms of logistics assets, major e-commerce companies have increased their strategic layout. Suning's storage area is mostly its own storage area. In contrast, JD's storage assets are mostly obtained through leases, and it has less of its own storage area nationwide. The huge logistics assets will bring heavy financial pressure to Suning and greatly increase the financial risk. Suning can operate its own warehousing assets through sale and leaseback, setting up special asset plans, in order to revitalize funds and mobilize capital flows, thereby alleviating the capital pressure of the company, reducing capital operating costs, and promoting the optimization and upgrading of Suning's income structure. This asset-light operation model will greatly increase the turnover rate of related assets of the enterprise, and it will also help promote the expansion and development of the enterprise.

### **4.2.3 Implement large-scale procurement.**

Through the above analysis, one of Suning's intuitive problems is that it doesn't have enough market share. Not only does it not have a large voice, it also fails to reduce costs through scale advantages. Therefore, Suning may consider uniting with the strong to promote development. For example, by establishing a supply chain with partners such as Alibaba, Suning can improve its bargaining power in the procurement process, thereby achieving the effect of large-scale procurement. At the same time, it can also improve the cooperative relationship with suppliers and improve the management level of accounts payable, thereby increasing the utilization rate of cash and reducing the cost of capital flow.

### **4.3 Information flow cost management improvement**

#### **4.3.1 Increase R&D investment.**

Through the previous analysis, Suning has shortcomings in R&D investment, and there is a gap compared with JD and other companies. In fact, nowadays, network information technology is a vital part of the market competition in the Internet industry, mastering this weapon can take the lead in market competition. What's more, the speed of technology iteration and update is getting faster and faster, while the technology cycle is getting shorter and shorter. Only by maintaining strong R&D capabilities can companies stay in the competition for a long time. It is far from enough to rely on simple and rough imitation for its dominant position. Therefore, Suning needs to pay more attention to R&D investment. Not only do companies need to continuously invest in related high-tech in operations and product development, but also need to focus on the training and introduction of R&D personnel and high-quality talents, and promote the improvement of R&D capabilities in all aspects.

#### **4.3.2 Pay attention to data mining and analysis.**

With the great improvement of material living standards and the continuous upgrading of consumer demand, consumers have put forward higher and more diverse demands for products. In this situation, in order to maintain competitiveness and achieve long-term development, e-commerce companies must put consumer experience first and always grasp consumer needs. In this process, timely and effective processing and integration of relevant consumer information and data is an inevitable requirement for achieving these goals. Suning should set up a special data collection agency to deeply explore and analyze the traces of consumers browsing products on Suning's shopping platform, classify and summarize consumers' consumption habits and needs, and tap the consumption potential. In addition, through the processing and analysis of relevant data, Suning can make reasonable and effective judgments on consumer needs, and effectively make corresponding adjustments to the company's operations. Big data will not only help e-commerce companies like Suning discover potential consumer groups, it will also be of great help to meet the needs of existing customers and improve satisfaction. At the same time, through the relevant statistics and analysis of the frequency of users logging in suning platform, the reason for customer loss can be judged, so as to carry out the corresponding maintenance.

#### **4.3.3 Promote with the help of online platforms.**

Today, with the development of self-media and social media, it is more and more convenient for the public to obtain information, and the role of social media in daily life is becoming more and more important. It has accumulated a huge user scale and traffic. With the help of relevant online platforms, e-commerce companies can use the user traffic accumulated on their platforms to publicize and promote the company's products and services, thereby enhancing brand awareness. For example, Suning can use PPTV, the Dragon Ball live network media platform, Inter Milan and Jiangsu Suning Football Club under the company's cultural creativity module for promotion, which can improve the social awareness of corporate products and services at a lower cost more effectively. In addition, by relying on online platforms such as PPTV and Dragon Ball Live, not only can Suning understand the needs of relevant users in a timely manner, and reduce the cost of information flow for enterprises, consumers can also easily buy products and services they want, which greatly improves shopping efficiency. In the process, Suning and consumers both achieved a win-win situation.

### **5. Safeguard Measures after Improved Value Chain Cost Management**

#### **5.1 Establish an organization dedicated to controlling the cost management of the value chain**

In order to ensure that Suning's cost control can be effectively carried out and executed, Suning can set up relevant organizations to manage costs. The traditional cost management system only accounts for the past costs, which is far from being able to meet the requirements of today's fiercely competitive society for enterprises. Modern cost management should be budgeted beforehand and accounted

afterwards. Therefore, it is very necessary and constructive to set up a dedicated cost management organization. A dedicated cost management organization can comprehensively manage and monitor the cost of an enterprise, grasp the overall situation, and guide the long-term development of the enterprise from a strategic perspective.

## **5.2 Implement standardized management**

Although after years of continuous development, China's e-commerce industry is still in a stage of rapid development. At this stage, the industry has not reached a consensus on the specific links covered by the value chain of e-commerce companies. If e-commerce companies, such as Suning, can implement standardized management including cost standardized management at this stage, it will help optimize corporate value. The cost of each link in the chain, thereby further improving the operational efficiency and management level of the enterprise.

## **5.3 Strengthen talent training**

If a company wants to maintain vitality and competitiveness, it cannot do without talents. In this regard, Suning has implemented the "1200" plan to introduce talents, but the introduction of talents is the first step, and whether they can stay and cultivate talents is the key. Suning may consider improving the company's incentive mechanisms such as equity incentives, job incentives, and salary incentives to retain talents, cultivate a cultural atmosphere for the company to strive for progress, and promote its long-term development. At the same time, Suning University has set up a special institution like Suning University under the headquarters of Suning to strengthen the training of employees. The company can play the role of Suning University in the construction of corporate culture, and strengthen employees' awareness of the company through formal and high-quality quality training. Suning needs to make persistent efforts on this basis, continue to play the role of Suning University in the follow-up training of corporate talents, and cultivate more useful talents for Suning's long-term development.

## **6. Conclusion**

This article compares Suning with JD, a benchmark in the e-commerce industry, in order to evaluate the links in the enterprise value chain, and select cost-related indicators from the actual enterprise operation and management, based on the logistics, capital flow and information flow in the e-commerce value chain. Dynamic comparison and analysis revealed that Suning's value circulation has problems such as low utilization of logistics assets, long capital circulation cycles, and insufficient investment in information construction. An improvement system has been constructed from the perspective of the value chain, that is, logistics needs to optimize the allocation of warehousing resources, increase the use of self-built logistics systems, and promote fair competition in the logistics industry; in terms of capital flow, it is necessary to develop its own payment platform and use asset-light operation models. At the same time, large-scale procurement is implemented; in terms of information flow, it is necessary to increase R&D investment, focus on data mining and analysis, and implement large-scale procurement. After adopting suggestions for improving value chain cost management, it is predicted that Suning's operational management level will be improved, and the overall corporate value will also be improved.

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