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Five ways to build profits from blockchain enterprises

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Innovative Chinese companies are seeking a first-mover advantage

As companies queue up to turn blockchain potential into actual business success, it is perhaps not surprising that Chinese enterprises are among the most ambitious and aggressive.

The Chinese Communist Party, the banking sector and even the courts are endorsing the distributed ledger technology, putting blockchain innovation firmly on the agenda in China.

In new research, **Eric Lim**, a senior lecturer in the school of information systems and technology management at UNSW Business School, examines the initiatives of five Chinese companies that have incorporated blockchain as the core element of their business offerings.

Lim's paper, *Business on Chain: A Comparative Case Study of Five Blockchain-Inspired Business Models*, outlines distinct business models that the companies have adopted in some form – platformer, disintermediator, transformer, mediator and co-innovator.

In turn, the study reveals the three key characteristics from which the companies derive value from blockchain – traceability (providing the ability to constantly track transactions in real time), transparency (ensuring rigour and clarity around transactions) and divisibility (allowing assets to be distributed digitally and through virtual channels).

“These are the traits that organisations should know and understand with blockchain before they move into this space,” Lim says.

Following is a snapshot of what the five Chinese companies are doing (the names have been anonymised at the request of the businesses).

PLATFORMER: BC TECHNOLOGY

BC Technology develops blockchain architecture and makes it accessible to other enterprises. One of the key aims of its platform is to increase the speed and capability of transactions over blockchain, which is snail-like compared with many existing transactional infrastructures.

For example, blockchain can typically only record seven transactions per second at a time when transactions for online payment platform Alipay and messaging and payment app WeChat peak at about 180,000 and 200,000 transactions per second, respectively.

“What BC Technology is trying to do is run a different protocol by which transactions are being confirmed,” Lim says. “So it makes it easier and faster for transactions to be carried out, and those transactions are then confirmed on the blockchain.”

Lim says BC Technology innovations are especially relevant to the banking sector, which requires a platform that can support high-frequency concurrent transactions electronically. It has collaborated with a major Chinese bank to support the development of a blockchain-based trade finance platform that streamlines interbank payments.

DISINTERMEDIATOR: TQ FINANCIAL

A major bugbear for banks is the inefficiency of payment clearing systems when bank notes are transferred from one bank to the other, with the need for central banks to verify settlements inevitably adding to time delays and costs.

TQ Financial seeks to bring greater efficiency to this function. Its core business revolves around the interbank transfer system of the Chinese renminbi currency, including applying blockchain technology to make the digital management of renminbi smoother.

“The current process is really inefficient and takes a lot of time and effort,” says Lim, who believes the innovation will translate to international banking markets.

“So imagine that you can just cut through this whole process without going through the central bank.”

In addition, Lim believes the ability of blockchain to act as a storage centre for data is also advantageous.

“The (central bank) will probably be more confident in relinquishing this settlement role and letting the banks transfer banknotes among themselves, and this is what TQ Financial is trying to do in the context of China,” he says.

TRANSFORMER: CN

The north-eastern part of China is famous for the quality of its rice, which is popular in the domestic market. But ensuring that consumers actually get this rice, rather than an inferior product, is not easy.

Enter CN, a high-tech company that is using blockchain and the Internet of Things sensors to create a ‘rice traceability system’ so consumers can be sure of the origin of their rice. “CN is exploiting the strength of traceability,” Lim says.

He notes the company is, in effect, harnessing the blockchain to revamp the practices of traditional industries. Lim believes this ability to trace products lends itself naturally to the restaurant sector, in which the origin and grading of wagyu beef, for example, is often a source of contention.

“Using blockchain to prove the point of origin to customers really increases the confidence that they are actually paying for what they have ordered,” Lim observes. “Currently we don’t have that. We just have to take the word of the restaurant.”

MEDIATOR: J FIN

J Fin is a subsidiary of a major e-commerce website that is the main rival of e-commerce giant Alibaba.

The parent company has hundreds of millions of active consumers and is investing heavily in artificial intelligence and technology products it can sell to retailers.

Since starting seven years ago, J Fin has been offering financial solutions in areas of asset management, consumer credit, payment and supply chain financing.

It uses blockchain’s strengths of transparency and divisibility as it harvests a vast array of consumer and transactional data to offer almost-instant credit line approvals for low-risk individuals and companies.

Working with banks, financial institutions and insurers, one of J Fin's success stories has been collaborating to offer an asset-backed-security car finance lease project, with the entire process being mapped on to blockchain.

According to Lim, blockchain also allows users to track the returns they get from financial products.

"So if a consumer can see different assets in a package and whether the loans are doing well, for example, they'll have more confidence in the package and be able to make better decisions," he says.

CO-INNOVATOR: QL TECHNOLOGY

QL Technology is a blockchain platform developer that last year completed series B financing of 1.5 billion yuan (about \$313 million). It was one of the largest traditional funding rounds in the blockchain space.

QL Technology has been developing enterprise-grade solutions in tandem with client partners based on its proprietary Hchain platform.

Features of the platform include sophisticated algorithms, data failure and recovery mechanisms, dynamic membership management, encryption capabilities, platform monitoring and the capacity to create smart contracts.

Those contracts help parties exchange money or anything of value in a transparent way while avoiding the services of a middleman.

Lim says one of the advantages of the technology is that it is designed so that functionalities can be added for specific industries:

"For example, it allows the incorporation of smart contracts into the blockchain in the sense that transactions can only happen when certain automated conditions have been fulfilled."

Lim believes one of the keys to the success of the five companies is that their solutions can cross organisations and industries.

"What they do is translatable and they actually make sense from a business perspective and from a societal perspective, too," he says.

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