Selection of Small & Micro-enterprise Financing Methods Under the Background of Internet Finance

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Abstract. The financing demand of entity economy hasn’t been effectively satisfied since the financial crisis, especially that the small & micro-enterprises are difficult to obtain the bank loans for the reasons i.e. bank loan rationing policy, information asymmetry, failing to provide the effective guaranteed mortgage etc. The financing constraints in channel have intensified the difficulties in production and operation, so that the enterprise development has entered a vicious cycle. The appearance of Internet financial products has made up for the deficiencies of the small & micro-enterprise financing in the traditional channels; as for the enterprise Internet financing, mode, big data finance and crowd-funding are the relatively feasible selections. In this paper, it aims to analyze and compare the selection of financing methods of the small & micro-enterprises under the Internet finance from the perspectives i.e. financing difficulty, financing cost, time cost as well as the fund utilization rate maximization etc in combination with the actual situations of the enterprises on the basis of comparing and analyzing the traditional financing methods and Internet financing methods.

Introduction

With the popularization and large-scale promotion of Internet, the Internet thinking based on technologies like mobile Internet, big data and cloud computing has gradually penetrated into all aspects of human life. The massive appearance of platforms has pushed the concept of Internet finance in front of the public; as the Internet financing products being widely promoted, they have been gradually accepted by more and more people for the diversified service modes, convenient operating process and flexible processing models. The development of Internet financing business has satisfied the financing demand of the individual consumption and company financing to a certain extent.

Internet finance has experienced just a few years since it was launched and ushered in the explosive development since the year 2014. In the current researches, researches on the loan and financing modes have always focused on the procedure and risk control, while researches on the operating mechanisms and principles of the modes are still to be summarized and concluded. It is of certain practical guiding significance to make the comparison and analysis on the existing Internet financing modes by means of comparison and analysis. As the effective complement and multiple choice for the traditional financing methods, to summarize and conclude the Internet financing modes and compare and analyze the respective advantages and disadvantages are helpful to the financing method selection of the small & micro-enterprises under the Internet finance, so as to solve the difficulties of the small & micro-enterprises in financial demand, realize the efficient allocation of the funds and give better display to the fund performance.

Traditional Financing Methods and Current Situation of the Small and Micro-enterprises

Characteristics of the small & micro-enterprises

The small & micro-enterprise is the general designation of small enterprises, micro enterprises, family workshop enterprises and individual businesses; compared with the sophisticated and perfect large-scale enterprises, there are still big differences for the small & micro-enterprises in management system, personnel allocation and fund etc.
The small & micro-enterprises have the common characteristics of “fewer personnel, lower business income and small general asset”. The three dimensions of personnel quantity, business income and asset scale have concluded the characteristics of the small & micro-enterprises. From a perspective of industry, the small & micro-enterprises are mostly the non-labour intensive industries with small number of employees; they are at the infancy stage or growth stage of enterprise development when the business income is increasing but the gross income is lower; in the meanwhile, the lack of fund accumulation has always resulted in the smaller gross assets as well as the smaller proportion of the fixed assets in the asset allocation.

**Traditional financing methods of the small & micro-enterprises**

**Debt financing.** Debt financing is a financing method of the enterprise to raise funds by borrowing; the debtor shall repay the principal and pay the interest to the creditor within the agreed period. Debt financing has the characteristics of shorter time cycle, reversible operation and responsibility. The major forms of debt financing are: 1. bank loan, which refers to the behavior that the demand side makes a request of loan for the bank and repays the principal and interest upon the agreed time after obtaining the fund. It has the characteristics of lower nominal interest rate, higher correlative charges and longer time cycle. 2. Bond financing, which means the enterprises issue the negotiable securities that repay the principal and pay the interest within a certain period according to the legal procedures so as to form the credit and debt relations between the enterprises and investors. Generally the investors could recover the principal and interest as scheduled without participating in the day-to-day operation of the enterprises directly. 3. Private lending, which means to raise funds from the natural persons through the agreed interest. 4. Loan guarantee, which means to obtain the funds through the third-party guarantee upon paying the higher interest and commission charge.

**Equity financing.** Equity financing means that the enterprise shareholders sell part of the enterprise ownership to increase the number of enterprise shareholders by means of increasing the fund so as to realize the fund-raising. The equity financing mainly contains: 1. equity right transfer, which means to raise funds, the enterprise will transfer a certain proportion of stock rights in a certain valuation method under the original equity scale. 2. Increase in capital and share, which means the enterprises shall raise more funds to turn more investors into shareholders to share the benefits of the enterprise operation and development in the future by expanding the original equity scale. 3. Risk investment, which is mostly aimed at the high-tech enterprises and helps the enterprises achieve the standardized and scaled development, increase the value of the invested capital and adopt certain withdraw mechanism to complete the cost recovery and profit acquisition by providing financial support and developing the guiding service. 4. The private placement financing is to raise funds from the specific minority investors privately through the non-public propaganda; the investors shall obtain profits by manes of sales and redemption after the enterprises get profits by obtaining the capital and expanding the business scale.

**Current situation of the small & micro-enterprise financing**

According to the Report on National Small & Micro-enterprise Development issued by the State Administration for Industry & Commerce on March 28, 2014, the total number of various enterprises in China is ten thousands, in which, according to the Division Standards for Small & Micro-enterprises, there are as many as 11.6987 million small & micro-enterprises, which occupies 76.57% of the total enterprises in China.

According to the investigation of All China Federation of Industry and Commerce, 95% of the small & micro-enterprises have no loan relations with the financial institutions. In the year 2011, the loan balance of the national small & micro-enterprises is only RMB391.474 billion, which is seriously unmatched with the social wealth and value created by the small and medium enterprises. The difficult and expensive financing for the small & micro-enterprises during the financing process is a common phenomenon.
Comparison and Analysis on the Internet Financing Modes

P2P Mode

Taking the Shanghai PPDai Financial Information Service Co., Ltd. (hereinafter referred to as “PPDai”) as an example, the company, established in June 2007 and headquartered in Shanghai, is the first person-to-person network credit loan platform in China. At the same time, PPDai is also the first Internet financial platform with qualification of financial information service specially approved by the department of industry and commerce and authorized by the government.

From the perspective of capital cost, the fund cost mainly refers to the transaction cost. PPDai’s transaction cost is composed of two parts, one is the committed loan charge of the capital borrower at the time of issuing the information, and the other one is the correlative charge collected by PPDai website.

<table>
<thead>
<tr>
<th>Table 1. Table of PPDai Financing Cost.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value-added service fee</strong></td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>199</td>
</tr>
<tr>
<td>4%-9%</td>
</tr>
</tbody>
</table>

Big data finance

Taking Ali Petty Loan as an example, it is an optimized online micro financial mode on the basis of e-commerce behavior data represented by the operation mode of Alibaba Petty Loan Company to provide small credit loan service for the online merchants on Ali’s e-commerce platform.

From the perspective of financial cost, the daily loan interest rate of Taobao loan is 5‰ with the longest period of 30 days, while that of the credit loan is 6‰ with the longest period is 6 months. The daily loan interest rate of the revolving loan of credit loan is 6‰, which is calculated according to the actual number of days of using; the daily interest rate of the one-year fixed loan is 5‰.

From the perspective of time cost, loans are available to the pledge form of Tabobao loan at any time while the time cost tends to be zero; however it takes 2 to 3 working days for the credit loan from the user makes the application until the information are approved. The second application can be made 30 days later if the initial examination fails. After receiving the loan, 80% of the loan amount will be transferred to the bank card of the applicant, the 20% remaining funds will be deposited into the Alipay account of the applicant. At the time of withdrawing the deposit, the system will transfer the applied amount into the Alipay account or bank account of the applicant within one to two working days.

Crowed-funding

Taking Click Starter as an example, the company was the first to introduce the crowd-funding pattern into China in the year 2011. At the early stage of establishing the website, the issued projects were rather broad, design concepts, technology products, films and television programs could be issued on the website. After the development in half a year, by analyzing the operation data of Click Starter, the success rate of the online projects on the website kept increasing, the financing amount kept expanding, and capital intensive has emerged. Since the year 2012, Click Starter started deepening itself into the industrial chain of intelligent hardware to researching problems during the manufacturing and innovation process of the innovative products.

It is free of charge when the enterprises start the projects; the platform shall charge 10% of the raised funds as the commission charge when the crowed-funding of the project is successfully completed; otherwise no charge. After the first issuing and reservation of the products, each team is required to pay 5% of the raised funds as the security deposit to make sure the products will be delivered on time. If the delivery time of the products is delayed for more than 60 days, or there are
great discrepancies with the quality as promised, the security deposit shall be deducted in part or full. After the enterprise has paid the security deposit, the platform will pay 70% of the raised funds to the enterprise within seven working days; after the user has confirmed and received the goods, the remaining 30% and the full or part of the security deposit will be transferred to the enterprise issuing the project.

Comparison of the three modes

The following Table 2 is established by analyzing and comparing the mode of PPDai, the big data financial mode of Ali petty loan as well as the crowd-funding pattern of Click Starter:

Table 2. Table of Comparison and Analysis of the Internet Financial Modes.

<table>
<thead>
<tr>
<th>Mode</th>
<th>Form of loan</th>
<th>Target Customer</th>
<th>Financial source</th>
<th>Time for business process</th>
<th>Financing cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>P2P</td>
<td>Unsecured, non-insured</td>
<td>Individuals, enterprises</td>
<td>Individual funds lending</td>
<td>About 20 days</td>
<td>interest rate 12%-24%</td>
</tr>
<tr>
<td></td>
<td>Secured, insured</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Big data</td>
<td>Joint-guarantee loan</td>
<td>Online e-business, individuals,</td>
<td>small-credit companies, bank financing,</td>
<td>1-30 days</td>
<td>Annual interest rate 18%-22%</td>
</tr>
<tr>
<td>finance</td>
<td></td>
<td>enterprises</td>
<td>asset securitization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crowd-funding</td>
<td>Unsecured, non-insured</td>
<td>Innovative enterprises, R&amp;D companies for conceptual products</td>
<td>Individuals, Angel investors</td>
<td>Within 60 days</td>
<td>10%</td>
</tr>
</tbody>
</table>

Selection of Small & Micro-enterprise Internet Financing Methods

By comparing the three Internet financial modes represented by PPDai, Ali petty loan and Click Starter, we have discovered that compared to the traditional bank financing methods, the Internet finance provides a more diversified selection for the small & micro-enterprises.

From the perspective of mortgage and guarantee, compared with the unsecured non-insured form of crowd-funding, the Ali petty loan, on the other hand requires the joint-guarantee of the merchants before obtaining the loan. The former two have maintained the relative independence during the financing process while the latter stresses the groupment. Therefore we can make the analysis that the industry-intensive industries could adopt the joint-guarantee form to solve the problem of no mortgage, for the joint-guarantee mode has established an invisible credit system among the enterprises, while the establishment of such credit system is based on the marketization and mutual trusts in enterprises, which is of stronger stability; the future operation of the enterprises will be impacted once there is any nonperformance among the joint-guaranteed enterprises.

From the perspective of financial source, it is mainly from the individual investors. Based on the fact that the Chinese common people are enthusiastic about saving up, under the premise of obtaining the safe and stable rate of return, the promising market is capable of prying the huge amount of stock capital. The financial resource of Ali petty loan mode is relatively limited in comparison with that of the crowd-funding; limited to the capital fund of the petty loan companies etc, the expendable fund scale is limited as well. The financial source of the crowd-funding is from the individual investors and Angel investors, and the participation of the Angel investors makes the large amount of financing possible.

From the perspective of the financing cost, the crowd-funding mode becomes the one with lowest capital cost with the cost close to the interest rate of bank loan. The platform has no funds of itself, to attract the investment of the individual investors, it must provide the profits beyond the
market interest rate; considering the certain timeliness, some small & micro-enterprises will adopt
the mode as well. Ali petty loan mode is aimed at the enterprises on the e-commerce platform,
therefore fluidity is the major objective that shall be firstly taken into consideration by such
enterprises; to pursue the rapid turnover of cash flow, they have to undertake the higher interest rate
made by the e-commerce petty loan companies.

Each of the three kinds of Internet financing modes has its own advantages and disadvantages
from different perspectives; therefore the enterprises shall make efforts in two aspects to select the
financing modes. The first aspect is the reasonable evaluation demand. At the time of handling the
financing demand, the enterprise shall select the most proper financing mode after taking the factors
i.e. financial demand scale, timeliness and cost into comprehensive consideration. The second
aspect is to make preparations in advance. The small & micro-enterprises are limited in financial
management, which will result in the relative more unexpected and temporary requirements; under
this premise, the enterprises fail to plan the financial demands scientifically; the capital planning in
combination with the enterprise development plans could help the enterprises to make the
comprehensive analysis and adopt the reasonable financing methods to guarantee the financing
timeliness and cost.

Conclusion

The appearance of Internet financial products has made up for the deficiency of the traditional
financing methods; however limited by reasons i.e. cost, restrictive condition of application, capital
reserve and lack of enterprise financing plan etc, it could only work as the effective complement of
the traditional financing methods but not the major financing method and channel. During the
development of the small & micro-enterprises, the credit accumulation shall be valued and the
governance structure shall be continuously improved so as to obtain more bank credit extensions
and financial supports. With the continuous improvement and opening of the capital market in the
future, the registration system for enterprise listing also will provide broader prospects for the small
& micro-enterprise financing.

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