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Research on Financing Cost of Small and Medium-Sized Enterprises by Internet Finance

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Abstract

Small and medium-sized enterprises (SMEs) as an important part of the national economy, are the main carrier of "public entrepreneurship, innovation" under the new normal of the current economic, and its development and growth is essential [1]. However, the financing difficulties have long restricted the development of SMEs. Because of their own characteristics, SMEs can hardly obtain the funds needed for their own development through traditional financing ways. The rapid development of Internet finance has opened the way for the financing of SMEs. This article discusses the ways of financing under the traditional financing mode and the reasons why it is hard to get financing. By summarizing the financing channels of SMEs on the Internet platform and analyzing their impact on the financing of SMEs, and then gives some policy recommendations.

Keywords

Internet Finance, the Financing of Small and Medium-Sized Enterprises, Financing Model

1. Introduction

Under the new normal economy, China's economic growth slowed down from 10.4% in 2010 to 6.7% in 2017, a decrease of 3.7 percentage points. In this macro-background, the Prime Minister Li Keqiang in the government work report put forward the "public entrepreneurship, innovation", which has developed into a national strategy. And small and medium-sized enterprises as an important part of the national economy are the essential carrier of implementing "public entrepreneurship, innovation", however, the problem of the financing difficulties and high financing costs of SMEs is very serious, which directly affect the development of SME. In April 2016, China's SMEs Association President Li Zibin in the "borrowing treasure" Enterprise Edition conference pointed out that the important reasons why the financing of SMEs is difficult to resist the internal risk are the lack of China's traditional financial system services and narrow corporate direct financing channels.

In China's existing financial system, there are two main types of financing mode, one is the indirect financing mode, dominated by commercial banks; the other is the direct financing mode in the stock and bond market. As of the end of 2015, the total number of listed companies in China is less than 8000; due to insufficient conditions for direct financing, a large number of SMEs can only use bank loans, private lending and other indirect financing. Due to the lack of real estate collateral, about 90% of the more than 15 million small businesses are not eligible for bank loans. In order to reduce the cost of loans and prevent risks, commercial banks have rejected the financing needs of SMEs.

With the establishment and development of Internet finance, P2P net lending, E-commerce financing and Crowd-funding as the representative of the network financing model [2], broaden the financing channels for SMEs. This paper introduces three representative financing modes, analyzes their characteristics and operating modes, and summarizes the effect of Internet finance on SME financing, so that the problem of high financing cost and financing difficulties for SMEs can get the correct understanding. Hope that the recommendations made in this paper can help SMEs in the future.

2. Financing Model for SMEs under Internet Finance

To a certain extent, Internet finance has made up for the deficiencies of traditional financial services, greatly reduced the transaction costs caused by the asymmetric information and non-government finance, and provided a lot of conveniences for the financing of SMEs. This article describes the following three financing models.

2.1. P2P Internet Lending

The fund demand side directly matches the borrower of funds through the third party P2P Internet lending platform. The main body of the P2P Internet loan platform provides credit rating, price evaluation and management for the fund supplier, which is guaranteed by the P2P Internet lending platform. At the same time, the platform will choose the attractive interest rate for the demand side of the funds after the market competition, and get the profit by charging service fees from both the supply and demand of funds. This way of financing greatly improves operational efficiency and resource utilization, reduces the cost of borrowing, and improves the issue of high threshold for SMEs in bank lending and financing, thus having a positive effect on solving the financing difficulty of SMEs.

2.2. Crowd-Funding

Crowd-funding, Taiwan called it "the masses to raise funds", Hong Kong called it "mass fundraising", refers to an access to funds that the demand side of the funds releases new projects equity information through the public platform, to find a large number of investors. The core logic of the business model is the process of raising money and brainstorming to achieve value discovery, value matching, value acquisition and value creation. In 2013, the world raised a total of $ 5.1 billion through the Crowd-funding, but 90% were concentrated in the European and American markets. The development of China's co-development model was relatively late. The first line of the Crowd-funding platform started in July 2011.

2.3. E-Commerce Financing

It refers to the use of third-party e-commerce platform for financing. The applicant must be a seller of the electricity platform. E-commerce financing is a pure credit loan based on credit and transaction records, without guarantee and mortgage, such as Ali small loans, ants loan, micro-credit, and so on. Compared to civil loans, small loan companies, bank loans and electricity business loans, we can see that the application conditions for E-commerce financing only need to operate in the corresponding business platform shop; the application time is faster, the service scope wide and the repayment method simple, which greatly reduces the cost of transaction, and satisfies the development demand of SMEs.

3. The Effect of Internet Finance on the Financing of SMEs

The operation of Internet finance under the background of large data not only solves the information asymmetry between the fund supplier and the demand side, but also makes the allocation of funds more reasonable. Through the analysis of the data of the demand side and the evaluation of the project, the financial platform determines the financing price reasonably, and provides the guarantee, which meets the needs of both the supply and demand of the fund. As shown in Figure 1. The impact of Internet finance on SME financing is reflected in the following aspects.

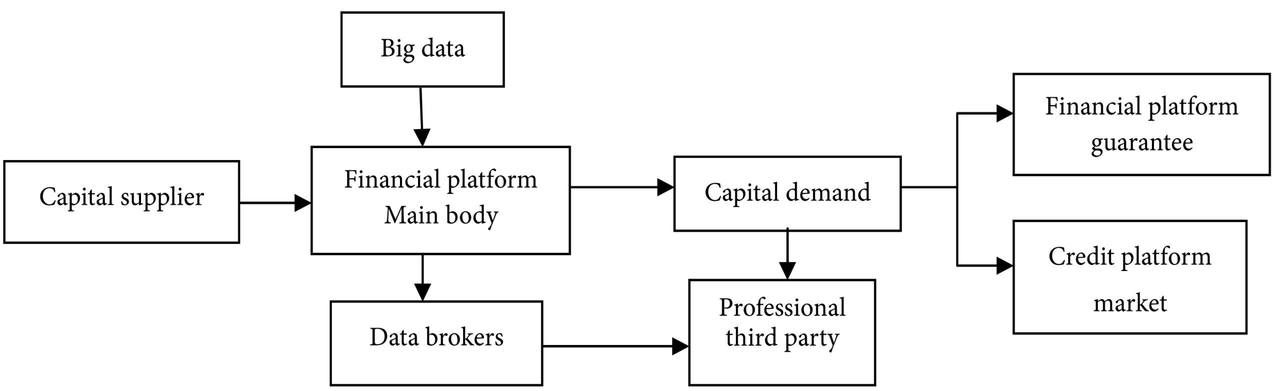

Figure 1. The process of internet financial operation under the background of big data.

3.1. The Choice of SME Objects Is More Comprehensive and More Scientific

The SMEs in the large data Internet platform analyze and excavate the indexes such as their operational data, upstream and downstream transactions, customer data, logistics data, sales data, certification information, financial data and enterprise credit monitoring data to obtain the innovation power, operations and finance of SMEs, to tap potential and valuable SMEs, to forecast their financing needs and to design competitive products that provide comprehensive financial services and enhance their customers' stickiness.

3.2. It Overcomes the Defects of Insufficient Guarantee Ability of SMEs

Internet finance successfully achieved seamless monitoring of the upstream and downstream capital chain, and relying on industrial chain finance, part of the Internet financial models removed the guarantee in providing financing services. For example, JingDong's "accounts receivable financing plan" is a very good expression. The supplier does not need to provide security but to provide supply documents, and then they will be able to get money in financial institutions, and 40 days later JingDong return the money to the bank, which is a deformation of the guarantee [3].

3.3. The Characteristics of Low Threshold, Simplicity and Low Financing Cost

As an extension and innovation of venture capital, Internet finance provides a very important source of financing for SMEs. First of all, it has a wide range of sources of funds, no longer limited to the traditional financial institutions such as banking, insurance and fund, but from private capital where everyone can participate. And the limitation to apply for loans for SMEs is rare, as long as they register on a fixed network platform, through the port enter into the credit check, they can apply for loans in accordance with the steps. The advantage is the short time for application and the simple program. Internet banking transactions are completed by the network, and credit operations entirely dependent on the system rather than manual operation, so it is characterized by high efficiency and low cost. For example, Alibaba small and micro credit single cost is ¥2.3, while the bank's single credit operating cost is about ¥2000 [3].

4. Countermeasures and Suggestions

4.1. Improve the Laws and Regulations of Internet Banking

Under the current circumstances, it is not yet universal enough for SMEs to seek financing from the Internet platform. Internet financing is also not well-developed due to its emergence as an emerging affair, as well as the relevant laws, regulations and policies. To a certain extent, this also limits the development of Internet finance [4]. Supervision departments should actively promote the specialization and refinement of the financial market division of labor, and finally settle down to the development of financing channels for SMEs. Just like allowing third-party payment system, only to guide and encourage the development of third party risk control independent subject, to build market autonomy and regulatory power to optimize the emerging Internet financial order, and on this basis, can we improve continuously the financing channels for SMEs.

4.2. Increase Government Support

The government should intensify its support and optimize the Internet finance. For example, the relevant departments increase the training of SMEs to help enterprises understand the banking and Internet information platform financing channels, to improve the SMEs financing service platform to strengthen its coordination and cooperation. The government can also play an active market role in setting up public infrastructure projects and realizing and improving the financing channels for SMEs. Government policy support can give SMEs more opportunities for survival and development. As a result of the government guarantee, it will also make it easier for SMEs to obtain financing.

4.3. Change Its Own Financing Structure

The Internet finance era is a new era for the public to participate in economic activities, creating low cost infrastructure and improving the financing activities of individuals or enterprises. However, we should also be soberly aware that the Internet seems unlimited scenery, but hidden many constraints and risk under gorgeous surface, these are the challenge that SMEs must pay attention to and accept in the process of financing. SMEs should establish good strategic cooperative partnership with their own upstream and downstream large enterprises, and relying on large enterprises gain more space for development, mutual benefit and win-win cooperation.

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