



Analysis on Risks and Countermeasures of Unicorn Enterprises Based on “Diamond Model”

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How to cite this paper: Han, R.Y. (2018) Analysis on Risks and Countermeasures of Unicorn Enterprises Based on “Diamond Model”. *Open Access Library Journal*, 5: e4867.

<https://doi.org/10.4236/oalib.1104867>

Received: August 24, 2018

Accepted: September 4, 2018

Published: September 7, 2018

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Abstract

The growth of the unicorn enterprises in China has been growing faster these years. They have used several years of Internet technology to create a business giant that has emerged over the past few decades or even hundreds of years. However, in the wave of global innovation, unicorns have not only opportunities, but also risks and challenges. In this paper, from the perspectives of factors of production, market demand, technology, government, strategic structure and similar competition, related and supportive industries, the competitive advantages and risks of unicorn enterprises are discussed by using porter’s diamond model, and corresponding Suggestions are provided for the innovative development of unicorn enterprises.

Subject Areas

Corporate Governance

Keywords

Potter Diamond Model, “Unicorn” Enterprise, Internet Technology, Innovation

1. The Research Background

Unicorn companies generally refer to the title of a company with a short-term valuation of more than \$1 billion in the investment community. In 2013, Aileen Lee, a well-known American Cowboy Venture investor, classified the private equity and open market startups with a valuation of more than \$1 billion and called them “unicorns”. There are probably two indications for unicorn companies: one is a start-up company that has been established for no more than 10 years, has received private equity investment, and has not yet listed, and the

second is that the company's valuation is more than \$1 billion.

In April 2018, Hurun Research Institute released the Hurun Greater China Unicorn Index in the first quarter of 2018. The total number of unicorn enterprises in Greater China reached 151, and 33 new unicorn enterprises were added. There are two companies on the IPO exit list, and the overall valuation is over RMB 4 trillion. Beijing has become the city with the largest number of unicorn companies, accounting for 45% of the total number of companies on the list, followed by Shanghai, Hangzhou and Shenzhen.

In recent years, China's unicorn enterprises have grown faster and faster. In just a few years, they have built on Internet technology to create business giants that have been around for decades or even centuries. 2017 was a bumper year for Chinese unicorn companies. The year saw "three big increases" in the number of unicorns, the valuation and the strength. Chinese unicorns are firmly the second largest in the world, and the gap with us has been further narrowed, realizing a leap from a corner to a global center, from weak strength to strong competitiveness. The rapid rise of unicorns reflects the acceleration of new growth momentum in China and is seen as an important symbol of China's emergence as a great power.

However, in the wave of global innovation, unicorns have not only opportunities, but also risks and challenges. As Cao, a financial expert, has argued, there are three big risks for unicorns: the first is the risk of a unicorn valuation bubble bursting. Since unicorn is a new thing in the a-share market, it is easy to trigger investors' pursuit and speculation, resulting in a bubble in the valuation. And the valuation bubble will eventually burst. The second is the risk of unicorns circling the money. Third, the risk caused by the delisting of loss-making unicorns. Therefore, how to avoid risk is the realistic problem that unicorn enterprises are facing at present.

2. Analysis Method: Diamond Model

The "diamond model" proposed by Michael porter includes four key elements of production elements, requirements, relevant and supporting industry, strategy and structure and competition, as well as two ancillary elements of opportunity and government. The model is often used to analyze the competitiveness of the industry, so it is used to analyze the competitive advantage of sharing economic projects, to build a qualitative evaluation index system and to be logical, and the more competitive the project is the less risky. It is likely that that creation time of the unicorn enterprise is short and its value is high, and its strong competitiveness is significant, and there is an enormous risk that it can be discussed by the diamond model from six aspect of the risk that the unicorn enterprise may be present.

3. Application of the "Diamond Model"

3.1. Technology

It is not only that beneficiary of sci-tech innovation, but also the leader of the

technological transformation, which can bring about the global technology accelerated upturn, and in a new round of scientific and technological revolution, the technological innovation pattern takes on new features, accelerate the transformation from traditional closed, centralised to open and platform, leading to the transformation of small and medium enterprises by large enterprises, the demand of new scientific research body is increased rapidly, especially in the market, the situation of the individual Angle and animals enterprises is more obvious, the unicorn enterprises can grasp the opportunity in short time, integrate resources, drive the growth of the technology and the exponential growth. According to the statistics of the Ministry of Science and Technology in 2017, the national high-tech zone has a unicorn ratio of about 80%, which has become a well-deserved “unicorn” cradle. The main reason is that the National High-tech Zone, as a new economic leader and a dual-innovation demonstration base, has always been in a state of good operation. The rich innovation and entrepreneurial resources provide support for the rapid growth of enterprises. In addition, technology-driven enterprises accounted for a significant increase in the proportion of newly-increased unicorn companies, and “hard technology” has become a typical feature of Chinese unicorns. For example, 42% of unicorn companies in Shenzhen are technology-driven. High-tech can provide guarantee for the development of unicorn enterprises, but if it can't keep up with the technological development of the times, it will face elimination [1].

3.2. Factors of Production

Unicorn enterprises have five categories of production factors. It is innovation, specific include: encourage innovation in the policy support, the social atmosphere of tolerance failure, noble qualities of respecting the success, the pursuit of excellence in mental state, must have the protection of intellectual property law strictly, makes innovators can get wealth, spiritual motivation, and can obtain psychological, legal protection, make innovation idea thorough popular feeling, grounding society. Second, financial support is a solid foundation for unicorn enterprises to realize value multiplication and sustainable development. The success of American unicorn enterprises, the perfect modern financial system is the key factor, especially the entrepreneurial financing system with seeds and angels, early VC and late VC as the main content, which provides a strong guarantee for technology from laboratory to large-scale production and from small range to social application. At the same time, the direct financing system with multi-level capital market as the core provides the exit channel for the venture capital and promotes the venture capital to realize the maximum value. Third, talent, unicorn enterprises market valuation is essentially the capitalization of talent. Research has shown that unicorns in particular need people who can communicate and have fun in near-crazy environments, including all-rounders, travel enthusiasts, people who don't feel comfortable with rude language, and diverse teams. Information is the foundation of production and the source of profit in the Internet era. Unicorn enterprises not only obtain information from tradi-

tional ways, but more importantly, obtain information through big data technology. In a sense, they themselves are a center of information collection, analysis and processing. Fifth is the industry, the perfect industrial system is the unicorn enterprise essential factor.

3.3. Demand Conditions

There are three external conditions for an enterprise to grow into a unicorn. First, identify a big market that hasn't been opened. Second, we need to create a new behavior model or business model, which will bring disruptive effects to the industry. Finally, we have to solve a big human problem, at least the common problem of most people. Innovation is essential to being a unicorn. Only by creating barriers to competition through innovation, and always maintaining the entrepreneurial spirit, can we call ourselves true unicorns. Currently, unicorn enterprises can be divided into advanced manufacturing unicorns according to the industrial regions, such as xiaomi technology, meizu, weilai automobile, etc. The other is Internet unicorn enterprises, representing enterprises for ant financial services, didichuxing and so on. It can be divided into four classes: technology-driven single-horn, audio-driven unicorn, platform-driven single-horn, and model-driven unicorn. See not hard, no matter what classification, the unicorn is of new science and technology innovation and international competition of the new subject, they rely on the management, market, financial, good controlling people's high technology talent, and information technology of data collection, analysis and processing, according to the characteristics of the audience, precise positioning customer needs, provide targeted and high quality service. In particular, unicorn enterprises such as didichuxing and ant financial have huge potential market support, and with the recovery and growth of the world economy and the enhancement of market confidence, the huge market demand will strongly promote the improvement of competitiveness of unicorn enterprises.

3.4. Related and Supporting Industries

The growth of unicorn enterprises often needs the complete industrial chain support. According to various rankings, unicorns tend to be concentrated in countries or regions with developed manufacturing and huge consumer markets, such as the United States, China, Germany, Japan and India. In addition, some small countries in Europe, such as Sweden and the United Kingdom, have large markets throughout Europe, and unicorn companies have grown very fast. Domestically, there are many unicorn enterprises in economically developed regions such as Beijing, Shanghai, Shenzhen and Hangzhou. In high-tech cities such as Wuhan, Xi'an and Chengdu, unicorn enterprises are also relatively concentrated. According to the data of China unicorn enterprise development report 2017 [2], in 2017, there were 120 unicorn enterprises in China, with a market valuation of more than 300 billion RMB, distributed in 16 cities including Beijing and Shanghai. Among them, north Shanghai, Hangzhou and Shenzhen concentrate 87.5 percent of the country's unicorn enterprises and 92 percent of

the market valuation. Coupled with support from a range of national and industrial policies, unicorns will see steady growth.

3.5. Strategy, Structure and Competition of the Same Kind

Strategic risk of an enterprise refers to the uncertainty of the realization of its strategic goals. First, there is a lack of exit strategies. One of the big reasons unicorns exist in abundance is that capital is afraid that it is not part of this great wave of value creation that has never been seen before. But the laws of the industry are bound to cause other unicorns to die or fall behind, eventually limiting the number of unicorns to a very small range. Second, the lack of sustainable business models. Most unicorns want to keep attracting customers, often with a lot of investment in the early stage. However, there is a lack of profit model when real user groups are established.

In 2017, China's unicorns were distributed in 16 industries, with an average distribution of about six in each industry. There are 16 enterprises in e-commerce and finance, 13 in culture and entertainment, 9 in automobile transportation, 8 in service and 7 in hardware. The total number of unicorns in six industries has reached 69, accounting for 70% of all unicorns listed in China. The delisting of loss-making unicorns also raises risks. Along with the changes made by the CSRC to the "ipo method", the obstacles to the listing of loss-making unicorns have also been removed. As some unicorns are still in the stage of capital investment, it will be very difficult to make profits in the short term. Then, if such unicorns go public, there will be the risk of delisting. According to the regulation, the listed company's loss for two consecutive years will warn the risk, the loss for three consecutive years will suspend the listing, and the loss for four consecutive years will stop the listing. If loss-making unicorns fail to turn a profit in two to three years, it is possible to suspend or even terminate the listing. What's more, unicorns are not synonymous with corporate success, and unicorns are likely to fail. As a result, it is highly likely that loss-making unicorns will eventually face delisting.

3.6. The Government

The government's strong intervention force in the development of the leading industry will make the innovation and entrepreneurship ecology supporting the development of unicorns imperfect. Unicorns are new things and their explosive growth depends on their subversion of traditional industries or industries. They need to be based on self-growing ecosphere. But if the government in the process of the industrial development of dominant color is too strong, "invisible hand" of government administrative intervention is too big, and if the government innovation of entrepreneurship policy lack of flexibility and inclusive, inhibit the development of the unicorn space, will allow the unicorn under the institutional environment of "strong government" unable to grow and develop well.

In addition to giving enterprises a tolerant environment for innovation, local governments can also offer subsidies and incentives in terms of renting houses

and introducing talents, but this is a drop in the ocean for enterprises themselves, and more importantly, it shows the support attitude of the government to encourage innovation. In the early growth stage of unicorn enterprises, many enterprises have poor profitability, far from a truly successful enterprise, is a developing enterprise with rapid growth. If, in these times, the government still taxes heavily and does not give companies the opportunity to innovate, the chances of a successful business are even more remote.

However, cultivating the unicorn and attract the unicorn, can't Mired in political achievements, can not deviate from the unicorn enterprise's development direction, the development of economy and high quality can't deviate from the goal, especially to prevent overdrafts government credibility, even making policy trap, let those who might otherwise in accordance with the economic law of the orderly development of enterprises, has fallen into the trap of policies, lost development opportunities and conditions.

4. Suggestions for Development of the “Unicorn” Enterprises

4.1. Taking Advantage of the Internet Economy, a Platform Type Enterprise for Incubating Unicorns Is Established

At present, the unicorn enterprises are mainly focused on two industries, such as advanced manufacturing industry and Internet industry, so that the development of the information base is especially important for unicorn enterprises. So we need to strengthen investment and cultivation in the Internet economy and large data industries. Firstly, to set up a benchmark Internet enterprise, to strengthen cooperation with BAT enterprises. Secondly, to construct the layered classified Internet enterprise support system, attach importance to the connection and cultivation of the growth chain of “entrepreneurial enterprises-unicorn”. It is to encourage that government to put forward a plan to support the development of the energy and development of the Internet platform, to launch a policy support and the like in the high-tech industrial park.

4.2. To Develop the Disruptive Technology Leading to Industrial Change, to Breed the Technology Leader's Unicorn Enterprises

First, guide the enterprise to strengthen the disruptive technology breakthrough [3]. It is almost subversive to pay high attention to the potential “zeroing” of existing investment, talent, technology, industry and rules. It is almost a matter of looking forward to the development of cutting-edge technology of emerging production. Second, we need to build a disruptive technology industry innovation breakthrough platform. Drawing on the experience of DARPA, we will strengthen the construction of industrial technology research and development carriers such as the industrial technology research institute of Jiangsu province, and cultivate a number of technology-leading unicorn enterprises in the fields of big data application, virtual reality, intelligent hardware, artificial intelligence and intelligent automobile.

4.3. To Improve the “Creative Ecological Circle” of the Development of Unicorn Veterinary Enterprises, Raise the Hatching Level of Unicorn Animals

First of all, the tolerance for disruptive innovation should be strengthened. The mode of “strong government” should be changed from “strong government” to “strong market”, “strong service” and “strong innovation”. Through “government support, market drive and financial support”, the ecosystem of unicorn enterprises’ growth should be built. Secondly, the incubation level of unicorn enterprises should be improved to attract international top incubator and entrepreneurial service resources. Finally, the technological financial service system of unicorn enterprises should be perfected to form a scientific and technological financial system that integrates government funds and social funds, industrial capital and financial capital, direct financing and indirect financing.

4.4. Create a Good Entrepreneurial Culture, Focusing on Elite Entrepreneurship

First, the construction of entrepreneurial culture should be strengthened. We should strengthen the publicity of entrepreneurship policies to form a value orientation of “advocating entrepreneurship, encouraging entrepreneurship and encouraging entrepreneurship” and a cultural atmosphere of “encouraging innovation and tolerating failure”. Second, the construction of entrepreneurial universities should be strengthened. Drawing on the experience of Stanford university in the United States, we encourage qualified universities to transform into entrepreneurial universities with strong innovation and entrepreneurship spirit, strong achievement transformation and commercial ability. Finally, focus on supporting elite entrepreneurship. Priority should be given to supporting the top executives of big companies, elite entrepreneurs from prestigious universities and international backgrounds, with a focus on small and medium-sized enterprises with “global genes”.

5. Conclusion

Unicorns, though short in time, are highly valued and have a big advantage in the investment world. But there are big risks. In general, the number of unicorn enterprises in China increased significantly in 2017, the valuation increased greatly, the strength increased greatly, the financing increased stably, the investment subjects were concentrated, the industry was widely distributed, and the regional distribution was concentrated. The areas where unicorns appear tend to be areas where innovation and entrepreneurship are active, economies are full of vitality and capital is racing to gather. Unicorns are in industries that tend to lead technology trends, break traditional boundaries and have an imaginative future. Unicorns tend to be charismatic and insightful entrepreneurs. In the era of mass entrepreneurship and innovation, we should follow the trend of The Times, put our sights on it and make correct choices.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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