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Research on SME Financing Strategy Based on Enterprise Life Cycle

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Abstract

The strategic management of enterprise financing plays a decisive role in enterprise management, especially the survival and rise and fall of small and medium-sized enterprises. According to the life cycle theory of enterprises, this paper divides the financial financing strategy management of SMEs into financing strategies in the start-up stage, financing strategies in the growth stage, financing strategies in the mature period and financing strategies in the recession period, and analyzes the different environments faced by SMEs in different life cycles and the characteristics of different stages of their life cycles, providing solutions for SMEs to develop financing strategies based on the life cycle of the enterprise.

Keywords

Small and Medium-Sized Enterprises, Life Cycle, Fund-Raising Strategy

1. Introduction

The theory of financial strategic management believes that modern financial management of enterprises faces a diverse, dynamic and complex environment, and each life cycle of the enterprise faces different environments, all with different stage characteristics. From the perspective of risk, combined with the theory of enterprise life cycle, studying the financing strategy of enterprises can make the financing decisions of enterprises have strong purpose and scientificity. Life cycle theory can identify the key turning points of enterprise growth, "prepare managers for the necessary changes", appropriately adjust the financing strategy, reduce the overall risk of the enterprise, improve the operational efficiency of the enterprise, enable the enterprise to obtain sustainable competitive advantage, and thus maximize the value of the enterprise (Adizes, 2017). If you ignore the

laws of corporate risk or growth, simply studying the financial strategy of the enterprise will have great limitations. Therefore, "SME financial management must be from a strategic perspective's long-term financial planning and operation", formulate different corporate financing strategies at different stages of development, and provide corresponding financial support to obtain sustainable competitive advantage to ensure the sustainable development of the company (Liao, 2006).

2. Fundraising Strategy for the Start-Up Period

The start-up period is the period when a business is founded and born, which is equivalent to the growth and development period of an organism. When the enterprise is at this stage, the "well-known is not high" and the capital is not sufficient, and any mistake in the entire production and operation process may lead to the death of the enterprise. The success or failure of new product development and the size of future cash flows of the company are highly uncertain, so the operational risk is very high.

The viability of SMEs depends on the process by which society needs their products and services and their own ability to meet them. Compared with large enterprises, "SMEs are more affected by environmental changes" and have a weaker ability to control environmental factors. During this period, the main problem faced by enterprises is not financial risk, but operational risk. According to the requirements of the reverse combination of enterprise operational risk and financial risk, "the principle of corporate financial strategic decision-making should be to pay attention to the operational risk of the enterprise", and the enterprise should not be allowed to bear greater financial risks. It is appropriate to adopt an equity financing strategy to "build a solid financial foundation" at the start-up stage to ensure the survival and future growth of the enterprise. Start-up enterprises are generally not suitable for debt financing, because on the one hand, "the risk of financial crisis of start-up enterprises is very large, and the precondition that creditors lend capital is subject to a higher risk premium", so the financing cost of enterprises will be high; On the other hand, "start-up enterprises generally have no or very little taxable income", and the use of liabilities to operate will not bring tax-saving effects to enterprises. For equity financing, "due to the poor profitability of start-up enterprises" investment has the potential to fail completely, enterprises should choose acceptable financing methods based on their future solvency. Start-up companies have fewer access to finance' that can be funded through retained earnings. In terms of raising new long-term funds, it is possible to issue more shares to private shareholders or borrow from banks, but in the case of insufficient profits, it is difficult for enterprises to obtain financial support, and the cost of capital is high. In this case, "companies can choose venture capital" and the government can also encourage private venture capital through tax relief. Venture capitalists invest in businesses in anticipation of high growth in profitability in the future.

3. Financing Strategies for the Growth Period

The growth period is the period when enterprises begin to grow from small to large and from weak to strong. At this stage, the company's products are gradually accepted by the market, "sales capacity is enhanced", production scale is expanded, business is growing rapidly, and the development speed is accelerated. However, the company's operational risk is still relatively large, mainly due to the increase in marketing expenses of the enterprise, the company needs to raise a lot of funds for project investment, but the cash flow of the enterprise is still uncertain, and the market environment is changeable.

The strategic task of SMEs in the growth period is to enter a period of large-scale development and gain a leading position in a large market in a certain field. Enterprises still have to face greater operational risks in the growth stage. Many companies hope to expand their scale and "diversify production", but they should pay attention to the cultivation of their own core capabilities. In order to obtain a return on investment, enterprises "tend to focus on the profitability of investment projects" and relatively ignore the risks of projects. Enterprises should adopt a strategic approach of focusing on equity financing and supplemented by debt financing. As venture capitalists demand high returns on successful ventures in the short term, once the product is successfully brought to market, they begin to prepare new venture capital plans. Therefore, "if there is risk capital in the original capital of the enterprise", the enterprise must find other suitable external sources of financing to replace it and provide capital reserves for the next stage of the company's development. During this period, "operational risk remains high" and therefore financial risk should be low, meaning that new alternative capital and capital increase integration should continue to be raised primarily through equity financing. Since the company's products have been tested by the market, and the company's operations have been relatively stable, new investors take on less risk than venture investors, and companies may be able to seek new equity capital from a wider pool of potential investors. Of course, equity financing also includes increasing the retention ratio of after-tax earnings. If neither financing can solve the financing required for the development of the enterprise, the last option is to consider debt financing.

4. Mature Fundraising Strategy

If the company persists through the growth period, it will enter the harvest period when the growth rate slows down, but the profit margin increases sharply, that is, the maturity period. At this stage, the company's main business has stabilized, and the growth rate of "product sales have remained stable" has begun to slow down. Enterprises are on the right track, "cash flow is relatively stable", operational risks are relatively declining, management systems tend to be perfect, and enterprise value is increasing. The level of corporate profits and the degree to which they are realized at maturity do not depend on the price of the product, but on the cost of the product.

Small and medium-sized enterprises have entered a mature period, "enterprises have hired more employees", the scale of enterprises has increased, and bureaucracy has gradually formed in management, showing the characteristics of large enterprise disease. Therefore, we should take extending the life of enterprises as the main content of financial strategy, "continuous innovation", try to avoid corporate risks in the mature period, realize the "second entrepreneurship" of enterprises, and "so that enterprises can successfully transform" into the second life curve. In the mature period of the enterprise, in order to avoid the constraints on the development speed of the enterprise after the industry enters the maturity stage, the enterprise will generally adopt a more active financial strategy. Mature enterprises can adopt a relatively aggressive fundraising strategy. Aggressiveness is relative to the soundness of the first two phases, which means that relatively high debt ratios can be used to effectively use financial leverage. During the maturity of the business, "operational risk is reduced accordingly", allowing the company to take on medium financial risk, and the company begins to experience large positive net cash flows, these changes allow the company to begin to use liabilities rather than equity alone. For mature stage enterprises

In terms of the industry, "as long as the increase in financial risk caused by debt financing does not create a high overall risk", the company maintains a relatively reasonable capital structure, and "debt financing will bring financial leverage benefits to the enterprise" while increasing the rate of return on equity capital (Han, 2014).

5. Financing Strategies during Recessions

A period of recession is a period in which a company gradually declines. Due to the intensification of competition, "the innovation ability of enterprises weakens", the original products are gradually eliminated by the market, "sales decline", and new products are difficult to launch, "enterprise business shrinks" and competitiveness declines. And the potential investment projects of the enterprise have not yet been determined, so the enterprise is prone to bankruptcy.

As SMEs entered a recession, "huge cash inflows from both operating and investment activities" and net cash outflows from financing activities reached historic highs. After entering a recession, "the real growth rate of the enterprise begins to decline" and the growth rate is negative, and the net cash flow is still positive, so "if the company adjusts its financial strategy in a timely manner," making full use of internal financial resources may not only delay the life of the enterprise, but may even avoid the end of the enterprise. Therefore, in general, enterprises should generally adopt a defensive contractionary financial strategy at this stage. Companies can continue to maintain high debt ratios during recessions without having to adjust their aggressive capital structure. On the one hand, the "recession period is not only the sunset period of the enterprise" but also the gestation period of the new vitality of the enterprise. In the case of rela-

tively developed capital markets, rational investors will be willing to take risks if the growth potential and market potential of new businesses are huge, high debt ratio means high yield; If the new business is not ideal, "investors will make their own judgment about future investments", because rational investors and creditors are fully capable of judging whether the liquidation value of their assets exceeds the face value of their debts by evaluating the future prospects of the enterprise. Therefore, this market environment has created objective conditions for enterprises to adopt high-debt financing. On the other hand, "recessionary firms have a certain financial strength" backed by their existing industries' and a high-debt financing strategy is feasible for the companies themselves (Yu, 2019).

6. Conclusion

The problem of enterprise life cycle is also the problem of sustainable development of enterprises, and it is necessary to formulate financing strategies that match them at different stages of the enterprise life cycle, if the life cycle of the enterprise is ignored and the use of inappropriate financing strategies will damage the sustainable development ability of the enterprise and is not conducive to the stable development of the enterprise. Start-up enterprises should take survival as the primary goal, take Internet financing and collective financing as breakthroughs, adopt diversified financing methods, and carry out long-term planning and consideration; enterprises in the growth stage should improve their management level through financing, and design the ratio of equity and debt financing to lay a good foundation for subsequent financing; Mature enterprises should pay attention to improving the efficiency of financing use, improve the output of unit funds, and focus on the transformation and transformation of enterprises to prepare for the arrival of a new life cycle; enterprises in recession should adopt a defensive financing strategy, adopt sales and divestitures to obtain internal financing, improve asset quality, and obtain opportunities for corporate rebirth. Therefore, it is of great practical significance to explore the financing strategy options at different stages of the enterprise life cycle.

Conflicts of Interest

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

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