

# Analysis on Internet Financing Methods of Small and Medium-sized Enterprises in Xi'an\*

Yaoyao Feng

Modern College of Northwest University  
Xi'an, China 710130

Jiangli Yang

Modern College of Northwest University  
Xi'an, China 710130

Xiaojuan Cai

Modern College of Northwest University  
Xi'an, China 710130

**Abstract**—In recent years, as the most dynamic group in the economic development, small and medium-sized enterprises in Xi'an have provided strong support for the sustainable growth of the city's economy. However, due to their own problems, such as opaque financial information, limited economic strength, lack of brand image, low credit level and high operational risks, SMEs have encountered various obstacles in financing with traditional financing methods and cannot obtain the required funds on time. Compared with traditional financing methods, internet finance has many advantages, which can solve the financing difficulties of SMEs and point out new directions for SMEs' financing.

**Keywords**—Xi 'an; small and medium-sized enterprises(SMEs); internet finance; financing

## I. INTRODUCTION

Internet finance is the product of chemical reaction between finance and the Internet. On the one hand, finance has clear legal boundaries, and there are unified standards and norms. It is rational and cautious; on the other hand, the Internet is synonymous with creativity, full of innovation and individuality. It is free and open and unfettered. The combination of the two has produced a new type of financial service model. In recent years, Internet finance has become more and more familiar to most people. With the development of the Internet, many new financing models have emerged, which has broadened the financing path for SMEs.

## II. OVERVIEW OF THE DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES IN XI'AN

### A. Definition of SMEs

The concept of small and medium-sized enterprises is not fixed and unchanged. Under different conditions and circumstances, the concept of small and medium-sized enterprises will change accordingly. In theory, SMEs usually

refer to enterprises with a small scope of personnel, funds, and operations, or in the initial stage and growth stage, including legal or natural person enterprises whose scale is below the defined standard. Specifically, it is a company with a relatively small scale of production and operation, a small number of companies, or an enterprise in the process of developing to a larger scale. "And people also have a broad and narrow understanding of SMEs. Broadly speaking, it refers to all enterprises except for large enterprises that are certified by the state. The narrow sense of small and medium-sized enterprises is that the scale is larger than micro-enterprises and smaller than large enterprises."

Each country has different criteria for the division of SMEs. The standard of China is the Circular on Issuing Standards for Classification of Small and Medium-sized Enterprises issued jointly by the Development and Reform Commission, the Ministry of Finance and the Ministry of Industry and Information Technology in June 2011. This circular defines and classifies the concept of SMEs in most industries in China. For example, "SMEs in catering industry refer to enterprises with less than 800 employees or sales of less than 15 million yuan. At the same time, medium-sized enterprises need more than 400 employees and sales of more than 30 million yuan, which is lower than the two conditions for small enterprises. The number of employees in small and medium-sized industrial enterprises is less than 2,000, or the sales volume is less than 30 million yuan, or the total assets is less than 40 million yuan. At the same time, medium-sized enterprises need more than 300 workers, the sales volume is more than 30 million yuan, and the total assets are more than 40 million yuan. Those who do not meet the latter conditions are small enterprises.

### B. Characteristics of SMEs

The characteristics of SMEs are as follows:

First, most of its production scale is medium or small. The initial capital investment is small, and most of the projects invested by enterprises are short-term investments, in order to recover funds quickly.

\*Fund project: This paper is the stage achievement of the special research project of Shanxi Provincial Department of Education "Research on the Financing Dilemma and Countermeasures of Small and Medium-sized Enterprises in Xi'an under the background of Internet +" (Project No. 18JK1163).

Secondly, business strategies are mostly temporary, flexible, with good adaptability, strong grasp of sudden opportunities, but lack of far-reaching planning, which is not conducive to long-term development.

Third, the number of employees in the enterprise is small, the organizational form is simple, the administrative power and management rights are unified, and the decision-making speed is fast.

Fourth, sensitive to changes in the market environment, a slight change in the market will have a great impact on it, or even the disaster of extinction.

Fifth, the source of funds is extremely single and the accumulation ability is very poor, it is difficult to achieve a higher profit margin of funds, and the predicament of enterprise development and progress is obvious.

### C. Development Status of SMEs in Xi'an

According to the statistics of Xi'an Municipal Bureau of Statistics, as of the end of 2013, there were 139,000 registered SMEs with various legal persons in Xi'an, including 115,000 private enterprises and 316,000 registered individual industrial and commercial households. SMEs achieved operating income of 1.1 trillion yuan, a year-on-year increase of 25.7%. In 2015, there were 1086 industrial SMEs in the city (above the scale), accounting for 94.7% of the total number of industrial enterprises in the city. The total industrial output value of small and medium-sized enterprises reached 251.137 billion yuan, accounting for 48.7% of the total industrial output value of the city; 195,480 employees, accounting for 38.6% of the total industrial employment of the city; the total value-added tax payable is 426.4 million yuan, accounting for 39.2% of the total industrial output value of the whole city. In the first half of 2017, the growth rate of large and medium-sized enterprises in industrial enterprises above designated size was 16.3%, 15.4%, and 25.4%, respectively. The growth rate of small and medium-sized enterprises was much larger than that of large enterprises. It can be seen that the rapid development of SMEs strong support for the sustained growth of the city economy.

### III. ANALYSIS OF TRADITIONAL FINANCING METHODS OF SMALL AND MEDIUM-SIZED ENTERPRISES IN XI'AN

Since most of the small and medium-sized enterprises in Xi'an are self-employed and family-owned management models, the ownership and management power are not separated, which leads to many serious problems in their financial system, such as relatives directly engaged in financial work, but they lack financial expertise, resulting in many financial errors, failing to verify and imperfect financial information; And due to their limited economic strength, lack of heavy assets or high value collateral, lack of brand image, resulting in low credit level and high operational risk. These issues of small and medium-sized enterprises in Xi'an have encountered various obstacles in financing with traditional financing methods, and they are unable to obtain the required funds on time and on schedule.

### A. Analysis of Advantages and Disadvantages of Traditional Financing Methods

According to the first equation of accounting: assets = liabilities + equity of owners, it can be seen that there are two sources of capital for an enterprise: equity funds and debt funds.

1) *Advantages and disadvantages of equity financing methods*: Equity funds are self-owned funds of enterprises, which are commonly used to absorb direct investment, issue stocks and retain earnings. Their common advantages and disadvantages are shown in "Table I":

TABLE I. COMMON ADVANTAGES AND DISADVANTAGES OF EQUITY FINANCING METHODS

Advantages	Disadvantages
(1) Enhance company reputation (2) Reducing financial risk (i.e. financing risk) (3) It can be used for a long time without a return period.	1) High capital cost(which absorbs direct investment > issue shares > retention) (2) Decentralized control rights (except for retention)

2) *Advantages and disadvantages of debt financing methods*: Debt funds are borrowed by enterprises. The common methods are bank loans, bond issuance, financial leasing, and commercial credit. The common advantages and disadvantages are shown in "Table II":

TABLE II. COMMON ADVANTAGES AND DISADVANTAGES OF DEBT FINANCING METHODS

Advantages	Disadvantages
(1) Low capital cost (financial lease < issued bonds < bank loans < commercial credits) (2) Non-decentralization of control rights (3) Financial leverage available	(1) There is a time limit for restitution, and the loans must be repaid (2) High financial risk (i.e. financing risk) (3) Limited funding (4) More restrictions on financing conditions

### B. Analysis on the Characteristics of Traditional Financing Methods for SMEs In Xi'an

Compared with the aforementioned rich and diverse financing methods, the financing channels of SMEs in Xi'an are relatively single, which shows the following characteristics:

First, self-financing is the main source of funding for SMEs in Xi'an. According to the survey of relevant parties, about 75% of the source of funds for small and medium-sized enterprises in the city is self-financing. Only one-third of the small and medium-sized service enterprises in Shanxi have financed, and two-thirds of the enterprises have not. The results of a questionnaire survey conducted by Xi'an branch of the people's bank of China also show that among the 257 small and micro enterprises participating in the survey, 79 have private financing behaviors, accounting for only 30.64% of the survey sample.

Secondly, bank loans are the preferred financing channel for SMEs in Xi'an, and state-owned banks are the main financing force for SMEs.

Thirdly, there are not many enterprises to raise funds through issuing stocks and bonds, venture capital and other channels, which are due to the limited economic strength of small and medium-sized enterprises in Xi'an, the lack of brand image and the irregular financial system.

Fourthly, other financing methods, such as private lending, relatives and friends lending, staff financing and loans to pawnbrokers and guarantee companies.

#### IV. ANALYSIS ON THE ADVANTAGES OF INTERNET FINANCE IN SOLVING THE FINANCING DIFFICULTIES OF SMEs

In the traditional financing process of SMEs, there are many problems, such as high transaction cost, asymmetric information and low financing efficiency. The emergence of Internet finance can solve these problems to some extent, reflecting many advantages.

##### A. Lower Financing Threshold

In order to resist risks, traditional financial institutions will strictly assess the creditworthiness of small and medium-sized enterprises and examine whether there are high-value asset collateral. Internet finance makes use of big data to realize the matching of funds between borrowers and lenders and audit the qualifications of customers online. This Internet financing model greatly simplifies the loan application process and lowers the financing threshold.

##### B. Realizing Personalized Financing for SMEs and Improving Financing Efficiency

Faced with the differentiated and personalized financing needs of SMEs, Internet finance can achieve the positioning and segmentation of customer groups through big data to meet different financing needs. Therefore, for small and medium-sized enterprises with personalized financing characteristics, Internet finance has an excellent effect of "private customization".

##### C. Reducing Financing Costs

In traditional finance, commercial banks have forgone loans to small and medium-sized enterprises because of the high cost of pre-lending investigations and post-lending supervision. In Internet finance, through the Internet technology, all aspects of the use of computer automation operations, simplify the approval procedures for loans and reduce the information screening of Internet financial enterprises, post-loan supervision costs and information processing costs. At the same time, large data show that this online loan platform can also achieve precise orientation and fixed-point marketing, thereby reducing marketing costs.

##### D. Solving the Problem of Information Asymmetry

On the one hand, the financial information of most SMEs is not open to the public; on the other hand, and the relatives who lack professional ability are engaged in financial management, which leads to frequent errors in accounting information and greatly increases the cost of obtaining accurate financial information for fund providers. Internet

finance can effectively solve the problem of information asymmetry. On the Internet financial platform, both sides of capital supply and demand publish information directly, and trade freely, without restriction of time and space. The information of supply and demand is almost completely symmetrical, which makes the transaction more convenient and efficient.

#### V. NEW WAYS OF FINANCING FOR SMEs IN XI'AN UNDER INTERNET FINANCE

Internet finance is an emerging financial model. Under this model, market information is almost completely symmetrical, and both funds supply and demand can be directly connected through the network, and transaction costs are greatly reduced. Commonly used Internet financial models include third-party payment platforms, P2P online loans, e-commerce platforms, and crowdfunding.

##### A. Third-party Payment Platform Financing Model

In the narrow sense, third-party payment (TPP) refers to a non-bank organization with certain strength and credit guarantee. With the help of communication, computer and information security technology, it uses the way of signing contracts with major banks to establish a connection between users and bank payment and settlement system. Third-party payment companies can provide high-quality and convenient credit services for their customers at very low cost by using the complete information of purchasing, payment and settlement accumulated by customers in their systems.

##### B. P2P Network Loans

P2P network loan refers to the matching of borrowers and lenders through the third-party Internet platform. People who need to borrow can find people who are able to lend and willing to lend on certain conditions through the website platform. It helps lenders to spread risks by sharing a loan amount with other lenders, and also helps borrowers to choose the attractive interest rate conditions among the fully comparative information. Compared with the traditional financing mode, P2P network loan has many advantages. Not only is the loan interest rate low and does not need collateral, but also is the loan application relatively simple and easy for operation.

##### C. Crowdfunding

Crowdfunding is public fundraising or mass fundraising. Crowdfunding refers to the mode of raising project funds from netizens in the form of group purchase + pre-purchase. Compared with the traditional financing mode, on the one hand, this financing mode enables investors to choose products and projects with creative ideas and investment potential more quickly. On the other hand, this financing mode extensively absorbs idle funds from the society, which can form a huge capital flow and meet the capital demand of enterprise development.

#### *D. E-commerce Platform Model Financing*

E-commerce platform financing is mainly through the use of e-commerce platform, the Internet financial E-commerce platform financing is mainly through the use of e-commerce platform, the Internet financial enterprises collect and store online trading information and customer payment information, through the construction of large data information base, and on this basis, the network platform to verify all the relevant procedures in the process of capital lending. From the perspective of financing, e-commerce platform financing is mainly based on the accumulation of current corporate reputation database resources, combined with big data analysis and information verification to achieve real-time monitoring, and completed mainly through Internet settlement means in the process of loan recovery. In the trading process CLP, supplement and perfect the small and medium-sized enterprises financing platform has information repository, build the financing platform actually guarantee the efficient of capital supply and demand ratio, small and medium-sized enterprise network financing risk prevention system construction as well as the large and effective organization system of small and medium-sized enterprise financing optimization.

### VI. CONCLUSION

In short, the emergence of Internet finance has improved financial services and promoted the integration of the Internet and finance. At the same time, it has improved the efficiency of financial market in China and better served the real economy and the general public. Under such circumstances, small and medium-sized enterprises in Xi'an need to choose appropriate Internet financing mode according to their actual needs and characteristics, make full use of the convenience of the Internet era, and broaden the financing path of small and medium-sized enterprises.

### REFERENCES

- [1] Sun Min. Using Internet Finance to Solve the Financing Difficulties of SMEs [J]. Wuhan Finance, 2016(3). (in Chinese)
- [2] Cheng Jing, Hu Jinlin. Analysis on the Financing Difficulties of SMEs in Internet Finance [J]. Commercial Economic Research, 2019. (in Chinese)
- [3] Chu Wenjing. Research on the Financing Path of SMEs in Xi'an under the Background of Big Data [J]. Times Finance, 2017. (in Chinese)