

# Analysis of OFO's Financing Problems

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## ABSTRACT

As a representative of the rapid rise of Small and medium-sized enterprises, OFO has gone from glory to failure in just six years. The main reason for it is that financing difficulty and the reasonable use of financing funds that SMEs generally need to face during their development. To solve this problem, China should carry out comprehensive reforms of the rule of law and finance to alleviate bank loan risks and establish the status of SMEs. Meanwhile, companies themselves should also pay attention to the correct use of financing funds in order to finance better.

**Keywords:** *SMEs, financing, OFO*

## 1. OFO'S FINANCING PROCESS AND CURRENT SITUATION

### 1.1. Financing Processes

Dai Wei founded Beijing Bikelock Technology Co., Ltd. in 2014 and pioneered the "Dollless Bike Sharing Model". As a new business model, facing a huge market gap, in order to quickly and occupy a broader market, the little yellow car needs to expand its exposure to the public and provide "discounts" for the first batch of users. The increase in popularity naturally requires strong financial support [1-2]. As a result, OFO began to raise funds across China.

Bikelock's financing process can be divided into three stages:

**Initial stage:** The small yellow car was mainly put on the campus of Peking University, with 2,000 vehicles placed. The launch of it made OFO's popularity and attracted the attention of more investors. Therefore, from 2015 to April 2016, Bikelock Technology Co., Ltd. Completed an angel round, pre-A round, A round, and A+ round financing totaling 35.5 million yuan [3].

**Intermediate stage:** In a short period, many financings were conducted. Since its launch in 2015, OFO's yellow car has been connected to 10 million shared bicycles and launched in more than 250 cities in 20 countries. The number of users has exceeded 200 million and the service it provided has been used more than 4 billion times. The huge order volume of OFO is obvious to all. So it has attracted the attention of many investors, because of its rapid development and the large market.

In September 2016, it completed the B round of tens of millions of dollars in financing, and in October, it completed Didi's C round of 130 million dollars in financing, which accelerated the development of the company. In 2017, it completed the D and E rounds of up to 450 million dollars and over 700 million dollars,

respectively. In 2018, the E+ round obtained financing of 688 million dollars.

**Recession period:** Because of the management decision-making issues created the excessive competition in the shared bicycle industry, each company had to use a large amount of capital to gain market share, resulting in huge operating costs and failure to achieve high income [4-6].

So far, Bikelock has completed 11 rounds of financing, reaching an amount of more than 2 billion dollars' capital. From the rapid and intensive financing, it can be seen that OFO's operation and expansion mainly rely on external capital to maintain. Even later it had to use equity and bonds to obtain Alibaba's \$1.77 billion in the financing, which not only caused high financial risk, but also buried hidden dangers.

### 1.2. Current Situation of OFO

Beginning in 2018, users' deposits cannot be refunded on the application, thousands of members of the public have embarked on the road to recover the deposits.

In 2019, the public interest litigation of consumer associations continued in many places.

In 2020, all of OFO's public channels, along with its executable assets, were evaporated [7]. Its operating entity, Dongxia Chase (Beijing) Management Consulting Co., Ltd., was listed as a dishonest person for execution 40 times and issued with high restrictions. Besides, there were 247 consumption orders, involving an unfulfilled amount of more than 509 million yuan.

## **2. ANALYSIS ON PROBLEMS AND CAUSES IN OFO FINANCING**

### ***2.1. The Influence of the External Environment***

#### *2.1.1. Commercial bank*

Commercial banks have a strong sense of avoiding risks. For risky SMEs, their applications for credit services have formed a multi-level hurdle, which has made it more difficult for these companies to apply for loans. For instance, when SMEs apply for loans, they need to submit a lot of materials and many other strict and cumbersome procedures, which need a long time for approval. In this process, banks will also utilize some intermediary agencies to rate the credit of these enterprises to determine whether to make loans. In a word, the existing credit rating system has not yet formed a definite standardized system and clear supervision, that's why it is hard to change the unfair treatment that SMEs are currently receiving.

#### *2.1.2. Financial Institutions*

Large-scale enterprises have good credit records, strong loan repayment capabilities, which make them as financial institutions' preferred credit targets. So compared with them, small and medium-sized enterprises suffer from more shortcomings and obtain fewer loans.

#### *2.1.3. National policy*

The development of small and medium-sized enterprises cannot be separated from the protection and support of national policies, meanwhile, they are also easily affected by the changing market due to the continuous changes of national policies. So, especially the austere business structures and funds are more vulnerable to be impacted. In addition, although the state has increased its attention to SMEs, most of the policies, which are conducive to the development of SMEs, have not been implemented. So the development of SMEs lacks muscular support. At the same time, the imperfect legal system of SMEs' financing may lead to certain risks during the financing process.

### ***2.2. Internal Problems***

#### *2.2.1. Improper use of capital*

The first appearance of the sharing economy has a huge market share, so the emergence of OFO becomes a target of imitation by many competitors, such as Mobike have begun to appear enthusiastically. Because of the increasing competitors, each company has begun to seek more money for satisfying the developing demand, when Mobike and OFO started and obtained high financial capital almost in the same period. Driven by capital, Mobike and OFO, which were not linked to the original operating model. For instance, OFO has been criticized for its inferior quality, low cost, but higher maintenance fee, and a lack of positioning systems. Instead, Mobike insisted on independent research and development, which caused heavy payment, long investment recovery period, and other shortcomings. Finally, the two began to converge and complement each other.

Additionally, in order to attract more users to broaden its own market share, OFO's participation in the vicious competition-the "price war", has not only failed to let the high financing capital do its best use. On the contrary, providing users with subsidized services such as "deposit-free" and "free-riding", bringing about lots of resources are consumed and lead to high operating costs, which has created greater financial pressure on the company later.

Disorderly competition in the blind pursuit of maximizing market share has caused chaos in industries with low barriers to entry [8-9]. In the "Great War", few companies can survive and maintain basic survival. In this "battle", it seems to provide consumers with "discounts", but it is only a short-term benefit. In the long run, consumers will suffer economic losses due to the closure of a large number of companies. Apart from this, their benefits damage will also lead to the weakening of consumers' willingness to consume, which will let them unable to maintain a larger scale of the market and hinder the development prospects of this industry, that's why investors' willingness to refinance is reducing.

#### *2.2.2. Failure to play the profitability of the business model accurately*

In the early stage, the capital brought by OFO's financing was mainly spent on the purchase of small yellow cars in various regions, without spending time thinking about profitability. Therefore, the main income was derived from rent and deposits on advertising revenue. In addition, consumers are reluctant to purchase services after enjoying the numerous "discounts" brought about by the "price war". As a result, even if OFO's comprehensive advertising on the design of its own products was still too tough to improve its profitability, which indirectly shows that his profitability is not as good as before and also

explains why some investors cut off its continued investment.

### *2.2.3. Incomplete thinking about the investors' interests*

Owing to the characteristics of small and medium-sized enterprises, the power of some high-level personnel is excessively concentrated. This is the case for Dai Wei, insisting that it is best to control the company by yourself. During the decision-making process, the interests of investors were not taken into consideration and relatively little financial information was disclosed. Investors who have invested huge amounts of capital couldn't understand the current operating conditions of the company and control the risks of these investments, as a result, investors are less willing to invest in the company or even withdraw the capital to avoid possible financial risks.

### *2.2.4. The deficient credit mechanism and a large number of users withdraw*

In the sharing economy model, trust is an essential factor that maintains the normal operation of the relationship between consumers, service providers, and operators. The main driving force for the development of OFO's shared bicycle business is user traffic. However, during its advance, because overestimation of the company's ability to save customers. Because it appeared that thousands of users asked for the refund but could not be resolved in time. In addition, the emergence of these incidents, such as chain breaks and insufficient cash flow, has aroused more consumers' concerns, leading to increased customer churn. The user's reputation of OFO's yellow car has dropped sharply. To a large extent, it has a negative impact on the choice of investors.

## **3. ENLIGHTENMENT FROM OFO FINANCING**

### *3.1. The Government*

#### *3.1.1. Strengthen policy supporting and improve the financing environment for SMEs*

Many countries such as the United States, Japan, and Germany have constructed a unique financing system environment for SMEs based on their characteristics. However, the current Chinese financial legal system is still not perfect, lacking systematic and long-term planning. Therefore, the legal and policy system support that should be provided and implemented as soon as possible. At the same time, long-term planning should be carried out to

establish the status of SMEs from a legislative perspective, which can reduce the "discrimination" of SMEs from investors and provide a fair environment for them.

#### *3.1.2. Consolidate and strengthen the position and role of large and medium-sized banks*

Bank loans are still the main way for small and medium-sized enterprises to obtain funds. Therefore, some measures should be taken to promote the development of large and medium-sized banks. Firstly, it is necessary to establish a characteristic loan franchise system, a credit approval system, and an incentive mechanism. Besides, allocating bank loan risks by various methods such as tax reduction and interest discount is also necessary.

### *3.2. Enterprise*

#### *3.2.1. Reasonably plan the capital use*

In the face of how to occupy a vast market and reject the temptation of interest, we must calm ourselves: don't blindly follow the crowd to join the excessive war and avoid wasting the capital obtained from the financing that is difficult to obtain. At the same time, a reasonable financing plan should be formulated and executed. Don't take advantage of the "Dongfeng" to raise funds in a short period of time because it is much easier for this promising industry to raise funds. When recession comes, we can't return investors' funds in time, because of insufficient profitability, debt solvency, and liquidity ability decline. Therefore, companies must make reasonable and scientific decisions and do what they can.

#### *3.2.2. Create a reasonable hematopoietic model*

The sharing economy is a brand-new business model. However, it should not be limited to the good prospects when it is first used, and ignore the profit model. Thus transforming the sharing model into a profit model with internal capital sources injecting vitality is an issue that needs to be considered urgently to promote the company's own development. Not only that, but reducing the dependence on external funds can also be helpful.

#### *3.2.3. Increase the emphasis on the interests of investors*

A new business model and a brand-new industry can achieve good initial development results. The initial capital is mainly from external financing. When external funds are obtained, it is natural to consider the interests required by the investors. The operational situation of the company is too closed. It is necessary to advance and

retreat together with investors, and timely inform them of the relevant information of the company's current operating conditions. Only in this way can investors' confidence in the current development and their willingness to invest.

### *3.2.4. Establish a good corporate image and attach importance to the maintenance of credibility*

Corporate image is the investor's first impression of the company, and it will largely determine whether the investor will invest and the amount of investment it wants to make, which is also an intangible asset of an enterprise. So a relatively complete and standardized system should be formulated to establish the credibility of the company and strengthen its management. According to the latest development process and existing problems to improve the weak links and work out the discovered new question.

## **4. SUMMARY**

The burgeoning of small and medium-sized enterprises is a crucial factor to boost the national economy. However, external financing is the decisive factor of their growth. For the contradictory relationship between the "price war temptation" of the huge market and the difficulty of financing, high-levelled decision-makers have chosen vicious competition. In addition, it does not pay attention to the establishment of its own hematopoietic model to connect internal and external funds, resulting in the lack of a stable capital chain supporting the enterprises. In conclusion, it can be learned from OFO's example that building a firm foundation, improving the correctness of leaders' decision-making, and planning the use of funds will promote a company's advancement. At the same time, the government should strengthen its correct guidance so that the normal order of the industry can be maintained, which can also accelerate the vigorous development of more small and medium-sized enterprises and provide more sufficient power for its economy.

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