

# Analysis of Small and Medium-Sized Enterprises' Marketing Risk Caused by Capital Chain Rupture

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**Abstract**—In the management process, operation difficulty caused by capital shortage often arises in small and medium-sized enterprises. Financing difficulty, blind expansion, excessive credit sales, poor financial management and losses caused by poor management can lead to capital chain rupture and capital chain rupture is a main reason for small and medium-sized enterprises' bankruptcy in China. On the basis of analyzing the specific manifestations and serious harm of small and medium-sized enterprises' capital chain rupture, small and medium-sized enterprises might adopt such strategies as keeping financing scale and financing cost at an appropriate level, making reasonable long-term development strategies, enhancing the management of credit sales and accounts receivable, transforming the enterprises' development model to realize their upgrading and so on to effectively avoid marketing risk caused by capital chain rupture.

**Key words**—Small and medium-sized enterprises, capital chain rupture, analysis of marketing risk, avoiding strategies

## I. INTRODUCTION

In the management of small and medium-sized enterprises in China, operation difficulty caused by capital shortage often arises. In severe cases, these small and medium-sized enterprises might meet with marketing risk caused by capital chain rupture. Capital chain rupture may not only make enterprises unable to run on the normal track, but also bring about bankruptcy. For any enterprise, capital is the most important resource. At the beginning of an enterprise, the owner needs to capitalize it. All the money will convert into the assets of the enterprise as it develops, including the necessary cash flow in enterprise's operation. The capital of successfully operated enterprises can maintain and increase its value and achieve the purpose of making profit. In this process, if the enterprise wants to run on the normal track, it must keep the virtuous circle "cash—asset—capital (appreciation)" working constantly. The basic capital cycling chain that an enterprise needs to run on the normal track is what we call capital chain.

In daily life, what we call capital chain rupture is the enterprise's cash flow dilemma caused by capital shortage and its inability to run on the normal track and even its facing bankruptcy risk. In broad sense, capital chain rupture refers to the enterprise's inability to pay its matured debts because of all kinds of internal and

external causes or its inability to run on the normal track because of capital shortage. In narrow sense, capital chain rupture is enterprise's inability to run on the normal track owing to its cash flow dilemma caused by too many debts.

## II. ANALYSIS OF REASONS FOR SMALL AND MEDIUM-SIZED ENTERPRISES' CAPITAL CHAIN RUPTURE

In China, capital chain rupture is an important reason for small and medium-sized enterprises' bankruptcy. After careful analysis of typical cases, we figure out several main reasons for small and medium-sized enterprises' capital chain rupture. They are listed below:

### A. Enterprise's financing difficulty

For a long time, capital shortage has been a bottleneck problem that restricts small and medium-sized enterprises' development. Small and medium-sized enterprises have limited financial strength and single source of capital. In the rapid development, small and medium-sized enterprises will face an increasing demand for capital. If small and medium-sized enterprises are unable to address the shortfall through efficient financing way, capital chain rupture will happen. In the current financial system in China, most small and medium-sized enterprises can't depend on socialized financing model like stock and shares, so loans from banks become the major way of financing. However, because of poor internal management and non-transparent financing condition in many small and medium-sized enterprises, commercial banks generally have a low credit rating to them, thus making it difficult for small and medium-sized enterprises to have access to effective financing through bank loans. Considering the huge cost of financing, once capital chain rupture caused by the inability to pay high-interest private loans due to its poor operational efficiency occurs in small and medium-sized enterprises, they might suffer embarrassment of bankruptcy finally.

### B. Enterprise's blind expansion

Small and medium-sized enterprises will advance along the course of diverse scale expansion as they develop to a certain stage. In China, inappropriate scale expansion and blind diversification often appear in small and medium-sized enterprises' expansion. If small and medium-sized enterprises begins blind expansion when

they have a poor knowledge of market environment and have few grasp of national policies and enterprise's financing capacity, they won't be able to provide enough running capital for their daily operation. Bankruptcy caused by capital chain rupture will also happen. Taizina Group was once the leading enterprise in the industry of lactobacillus beverage. Since 2002, Taizina Group has invested more than 3 billion yuan to start its expansion. In 2007, its asset investment reached 1.3 billion yuan. In the early 2007, Taizina Group accepted 73 million dollars investment from three foreign investment banks and blindly began to seek overseas listing. In 2008, because of tightened loans from banks and the influence of global financial crisis, Taizina Group shrank in its excessive sales and became debt-ridden. Blind expansion will finally lead to small and medium-sized enterprises' capital chain rupture. In July, 2007, Taizina Group entered bankruptcy of reorganization proceedings and was taken over by New Hualian Group and Sanyuan Group in September, 2011.

#### C. *Enterprise's excessive credit sales*

Since small and medium-sized enterprises are less competitive in the market, some have to sell goods on credit. Credit sales relieves sales pressure to a certain degree, but it causes difficulty in recovery of payment. If small and medium-sized enterprises depend too much on credit sales, they might not be able to recover payment in time and even might suffer a large amount of bad debts loss, which not only affects small and medium-sized enterprises' normal cash flow but also brings about capital chain rupture and bankruptcy risk.

#### D. *Enterprise's poor financial management*

In China, small and medium-sized enterprises' financial management level is relatively low. Low-level financial management may also lead to small and medium-sized enterprises' capital chain rupture. Considering small and medium-sized enterprises' limited capital, they might meet with capital chain rupture risk if the following situations appear in financial management: the enterprise faces tremendous financing gap due to unreasonable arrangement of cash payment; the enterprise has slow capital turnover rate due to excessive capital-occupying fixed investment or inventory; the enterprise fails in its investment and loses all the investment money; the enterprise suffers "great blood loss" due to joint responsibility in warmhearted guarantee error; the enterprise has unreasonable debt structure and can't pay its debt.

#### E. *Enterprise's loss caused by poor management*

In recent years, world economy has been in a sluggish state under the influence of global financial crisis. Price of small and medium-sized enterprises' products shows a sustained downward trend as the external market continues shrinking. However, the cost of

raw material, labor and financing is rising and small and medium-sized enterprises' management level is low. All these will lead to small and medium-sized enterprises' operating loss. If small and medium-sized enterprises can't change the status quo, they might meet with drying up of capital flows and face capital chain rupture, leading to their inability to run on the normal track.

### III. ANALYSIS OF SMALL AND MEDIUM-SIZED ENTERPRISES' MARKETING RISK CAUSED BY CAPITAL CHAIN RUPTURE

In enterprise's operation, capital chain rupture is a main marketing risk that small and medium-sized enterprises should prevent. Capital chain rupture brings about great harm.

#### A. *Main manifestations of small and medium-sized enterprises' marketing risk due to capital chain rupture*

In the operating process, once small and medium-sized enterprises meet with marketing risk due to capital chain rupture, the following signs will appear: the enterprise stops production because of inability to purchase materials and equipment; the enterprise has defaulted many loans and expenses payable and violates supply contract or related policies and regulations; the enterprise has many wage arrears and its employees can't get basic pay on regular basis; the enterprise often defaults principal and interest of bank loans and can't pay loans that come due; the enterprise often meets with a large number of disputes over obligation and is even taken to court; the enterprise has to try every possible means to achieve the purpose of financing despite the cost; the enterprise begins a large-scale layoffs or reduction and combination of organization because of poor operation.

#### B. *Harm caused by small and medium-sized enterprises' marketing risk due to capital chain rupture*

In the operating process, marketing risk caused by capital chain rupture tends to create a chain reaction. Once capital chain rupture occurs in small and medium-sized enterprises, great harm will be brought about to them and also to their related public. Specifically, harm caused by capital chain rupture includes: various hidden internal and external contradiction will instantly present themselves and various management problems will emerge as well; the enterprise will lose its previous commercial credit and time purchase it enjoyed will be required to be replaced by cash and spot transaction and thus the enterprise's operating cost will increase further and so will the marketing risk; because of impaired credit record, the enterprise's financing will come with strings attached and the financing cost will also increase, making financing become more difficult; the enterprise's account

will be sequestered and related assets will be mortgaged, leading to bankruptcy risk; because of excessive depression or inability to stand the tremendous contrast, the enterprise owner may run away or commit suicide, which has a negative influence on the enterprise's image; various problems caused by capital chain rupture will have great impact on the confidence of partners at all levels and affect upstream and downstream firms.

#### IV. SMALL AND MEDIUM-SIZED ENTERPRISES' AVOIDING STRATEGIES OF MARKETING RISK CAUSED BY CAPITAL CHAIN RUPTURE

##### A. *Small and medium-sized enterprises' capital chain rupture can do great harm to them.*

In order to avoid the marketing risk caused by capital chain rupture, small and medium-sized enterprises can adopt the following strategies:

Keeping the financing scale and financing cost at an appropriate level and taking various measures to solve the financing difficulty. Small and medium-sized enterprises' meeting with marketing risk in capital chain rupture caused by financing difficulty is to a large degree the result of the enterprises' excessive financing scale and high financing cost. While small and medium-sized enterprises make efforts to keep the financing scale and financing cost at an appropriate level, government and related institutions should also help them to address financing difficulty. Generally speaking, possible measures include: government should increase tax support for small and medium-sized enterprises and properly relieve business tax and income tax and at the same time set up policy guarantee institution for small and medium-sized enterprises; government can also encourage commercial banks to set up special financing service institutions for small and medium-sized enterprises to help them raise asset risk management level and properly increase regulator's tolerance levels of the ratio of non-performing loans in small and medium-sized enterprises; in addition, government can deepen the reform of financial system and properly relax limitations on private bank's establishing conditions to encourage more private capital to go to the financial arena.

##### B. *Making reasonable long-term developing strategy for the enterprise and avoiding small and medium-sized enterprises' blind expansion*

In the developing process, small and medium-sized enterprises should make reasonable long-term developing strategy for themselves and avoid blind expansion according their own market positioning after comprehensive analysis and scientific prediction of the market environment. Blind expansion like blind diversification, inappropriate scale expansion and so on often happen in some small and medium-sized enterprises because they lack clear long-term developing strategy or the implementation of developing strategy is inefficient.

Therefore, in the development, small and medium-sized enterprises should avoid blind expansion through reasonable strategic plan and make good use of limited resources in the enterprise and also prevent the bankruptcy caused by capital chain rupture.

##### C. *Strengthening the management of enterprise's credit sales and accounts receivable and actively guarding against debt crisis*

In the operating process, small and medium-sized enterprises should continuously improve sales management level and effectively strengthen the management of credit sales and accounts receivable. Specifically, small and medium-sized enterprises need to make reasonable credit policies and keep the credit sales at an appropriate level. They should establish "responsible person" system in credit sales and implement "credit sales associated with the recovery of accounts receivable" interest distribution mechanism. While strengthening the management of accounts receivable, they should also try to reduce bad accounts loss and accelerate capital turnover in every effective way to actively guard against debt crisis.

#### 4.4 Strengthening enterprise's financial management and improving the management and supervision of small and medium-sized enterprises' capital chain operation

In the operating process, small and medium-sized enterprises should ceaselessly enhance their financial management and improve the management and supervision of small and medium-sized enterprises' capital chain operation to effectively avoid capital chain rupture caused by poor management. Specifically, small and medium-sized enterprises need to make overall and reasonable plan of cash payment and prevent tremendous capital gap; they also need to reduce excessive capital-occupying fixed investment and inventory to ensure smooth operation of working capital; small and medium-sized enterprises should do good research and justification work before program investment and be cautious when tendering related guarantee and try to avoid "huge blood loss" caused by joint responsibility in warmhearted guarantee error; they should also reasonably arrange their debt structure and constantly raise their ability to pay debts.

#### V. CONCLUSION

Transforming the enterprise's development model is the most appropriate way to improve the operational efficiency of small and medium-sized enterprises. In China, the development model that small and medium-sized enterprises used is making mass production at low cost and occupying market at low profit. After global crisis, the living environment changed a lot for small and medium-sized enterprises in China. The development model that small and medium-sized enterprises used can no longer help them survive because of a sharp rise of small and medium-sized enterprises'

operating costs, the excess capacity of many industries, shrinking market and also sustained downward trend of product prices. Under this circumstance, small and medium-sized enterprises should actively transform their development model and realize industrial upgrading by raising the ability of developing technological innovations. They should try to occupy market by the brand advantage and at the same time further improve their management level and also their operational efficiency.

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