Article

Research on Business Model Transformation Strategy of Small and Medium-Sized Enterprises from Financial Perspective

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Abstract: This paper examines business model transformation strategies for small and medium-sized enterprises (SMEs) from a financial perspective. Through analyzing the financial challenges SMEs face and incorporating relevant data, it explores how financial factors influence business model transitions. Using empirical research methods, the study compares the effectiveness of SME transformations under different financial support frameworks and proposes targeted strategies. The findings aim to provide theoretical foundations and practical guidance for SMEs during their business model evolution processes, offering both academic insights and actionable solutions.

Keywords: financial perspective; small and medium-sized enterprises; business model transformation; transformation strategy

1. Introduction

Small and medium-sized enterprises (SMEs) play a vital role in the national economy, driving economic growth and job creation. However, as market competition intensifies and economic conditions evolve, their traditional business models face mounting challenges, transforming into an essential path for survival and development. As the cornerstone of the economy, finance significantly influences SMEs 'business model transitions. Strategic financial support can provide funding guarantees, mitigate risks, and facilitate successful business model innovation and upgrades. Therefore, studying SMEs' business model transformation strategies through a financial lens holds substantial practical significance.

2. Financial Difficulties in the Business Model Transformation of Small and Medium-Sized Enterprises

2.1. Narrow Financing Channels

Small and medium-sized enterprises (SMEs) face structural barriers in financing due to limited asset scales and weak creditworthiness. Commercial banks, prioritizing risk control, tend to impose stringent credit criteria that emphasize real estate mortgages and third-party guarantees, making it difficult for asset-light businesses or startups to meet lending requirements. Data shows bank loans account for about 60% of external financing for Chinese SMEs, a stark contrast to the over 80% penetration rate among large enterprises, highlighting asymmetric credit resource allocation. More critically, high entry barriers in direct financing markets persist despite capital market reforms like the registration-based IPO system. SMEs still face institutional obstacles in information disclosure compliance, sustainable profitability verification, and governance standardization, severely limiting their access to equity financing or bond issuance. Even innovative tech SMEs often get excluded from mainstream financial systems due to insufficient collateral or financial transparency, creating a paradoxical situation where "financing difficulties" coexist with "investment shortages in projects". This imbalance in the financing ecosystem

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fundamentally constrains enterprises' strategic flexibility and resource allocation capabilities during business model iterations.

2.2. High Financing Costs

Small and medium-sized enterprises (SMEs) face significantly higher overall financing costs compared to large corporations, a phenomenon rooted in the risk pricing mechanisms and information asymmetry within credit markets. To mitigate credit risks, banks typically implement interest rate escalation strategies for SME loans, with actual rates often 20-50% above benchmark levels-sometimes exceeding 60% in high-risk industries or regions. Beyond explicit interest payments, SMEs must also bear joint liability guarantee fees charged by insurance companies, which usually range from 1.5% to 3%. Additional costs from third-party services like asset valuation, legal consultation, and financial audits further inflate overall financing expenses. Empirical data show China's SMEs average 3-5 percentage points higher financing costs than large enterprises. In some regions, the annualized cost of micro-enterprise loans has approached 9%, nearing the range of informal lending rates. These high-cost financing options not only squeeze profit margins but also weaken enterprises' capacity for technological upgrades and market restructuring, creating substantial constraints on business model transformation [1]. Particularly in cash flow-sensitive industries, heavy financial burdens force companies to prioritize short-term debt repayment over medium- to long-term strategic resource allocation, thereby delaying organizational reforms and value creation model evolution.

2.3. Inadequate Financial Services

Financial institutions have long exhibited structural imbalances in their service provision to SMEs, with their business strategies predominantly targeting large enterprises possessing clear credit credentials and strong collateral capabilities. This has resulted in a mismatched resource allocation among market entities. In contrast, SMEs often find themselves marginalized in credit approval processes due to limited financial transparency and smaller asset scales. The existing financial product system fails to adequately address the heterogeneous needs of SMEs, particularly in short-term liquidity support, order financing, bill discounting, and movable asset pledge financing based on genuine supply chain transactions [2]. Although some commercial banks have established "specialized SME departments," their risk control mechanisms still rely on real estate mortgages and group guarantees rather than being deeply integrated into business operations [3]. Challenges such as multi-level manual reviews, redundant document submissions, and perfunctory post-loan monitoring during financing applications have led to approval cycles exceeding 15 working days for fund disbursement, failing to meet SMEs 'urgent capital turnover needs. Empirical research shows that nearly 40% of manufacturing SMEs in the Yangtze River Delta region have been forced to abandon technological transformation windows due to delayed approvals, exposing institutional friction between financial services and real economy demands. This service inertia not only hinders the efficiency of financial resource allocation but also weakens enterprises' capacity for value leapfrogging through business model innovation at the micro level (Table 1).

Table 1. Comparison of Bank Financing Between SMEs and Large Enterprises.

scale	The proportion of bank loans to total financing	The cost of financing is a percentage point higher than for large companies
minor enterprises	About 60%	3 - 5
large-lot producer	More than 80%	not have

3. The Influence of Financial Factors on the Business Model Transformation of Small and Medium-Sized Enterprises

3.1. Financial Support for Transformation

The availability of capital is deeply embedded throughout the process of restructuring SME business models, forming the core constraint for organizational capability evolution. In the context of transitioning from labor-intensive production to digital operations, enterprises need systematic investments in Industrial IoT architecture deployment, MES system integration, and high-skilled engineering teams [4]. Such capital expenditures exhibit pronounced sunk cost characteristics with delayed return cycles. A precision machinery manufacturer in Ningbo faced interruptions in automated production line construction and delayed order deliveries due to insufficient long-term financing support during smart factory upgrades, ultimately losing industry certification qualifications. Conversely, enterprises receiving policy-backed technical renovation loans increased fixed asset investment intensity by 42%, with the R&D personnel ratio growing by 1.8 percentage points annually [5]. Continuous credit infusion not only alleviated liquidity constraints but also enhanced corporate bargaining power in industrial chains through signaling mechanisms. Empirical data show that after controlling for industry and regional variables, each one-standard-deviation increase in financing coverage raises the probability of service-oriented extensions or platform-based transformations by 27.6% ($p<0.05$), with this effect being particularly pronounced in high-tech sectors. The stability and precision of capital supply fundamentally reshape SMEs' strategic choice space and innovation tolerance boundaries [6].

3.2. Financial Innovation Drives Transformation

Financial innovation is deeply embedded in the practical field of business model restructuring for SMEs, becoming a key driver of organizational transformation. In a smart manufacturing industry cluster in the Yangtze River Delta, a blockchain-powered supply chain finance platform has achieved multi-level credit penetration for core enterprises. This enables upstream micro-suppliers to obtain low-cost financing backed by genuine trade transactions, reducing accounts receivable turnover cycles to 23 days and significantly enhancing supply chain capital efficiency. Meanwhile, the integrated application of digital bills and dynamic discounting tools closely aligns financing services with corporate operations, improving cash flow matching accuracy. Internet finance has also transcended traditional credit logic. In Shenzhen, tech SMEs now utilize big data risk control models for online credit loans with T+1 disbursement, enabling rapid response to R&D iteration needs. Equity crowdfunding platforms provide dual channels for market validation and capital infusion to enterprises with innovative prototypes but lacking collateral assets [7]. Notably, fintech applications not only alleviate information asymmetry but also establish "digital credit profiles" through transaction data accumulation, shifting financing decisions from static financial evaluations to dynamic behavioral assessments. This technology-empowered paradigm shift fundamentally restructures SMEs' resource acquisition pathways and strategic flexibility, providing structural support for their service-oriented and platform-based transformation [8].

3.3. Financial Risk Management Guarantees Transformation

In the evolution of business model restructuring, SMEs often operate in highly uncertain environments where market volatility, delayed technological iterations, and cash flow disruptions form a complex risk matrix. Financial institutions have gradually established full lifecycle risk mitigation mechanisms through specialized risk control systems. Tech companies frequently face R&D breakthrough bottlenecks during their innovation phases. Pilot regions have introduced customized technology insurance products with project milestone compensation mechanisms, covering R&D failure losses [9]. A Zhejiang-based intelligent equipment manufacturer adopted patent enforcement insurance, which

not only strengthened negotiation resilience in international collaborations but also created credit enhancement effects during financing processes. To address market risks from exchange rate fluctuations and raw material price volatility, financial institutions provide dynamic hedging solutions through embedded derivatives like forward exchange contracts and commodity options combinations, narrowing cost fluctuation ranges to manageable thresholds. More fundamentally, the integration of risk management tools is shifting enterprises from passive defense to proactive strategic management. Risk management now extends beyond loss compensation, becoming a key regulatory variable for optimizing resource allocation efficiency and enhancing stability and path adaptability during transformation processes [10].

4. Business Model Transformation Strategy of Small and Medium-Sized Enterprises Based on a Financial Perspective

4.1. Expand Financing Channels

4.1.1. Strengthen Cooperation with Financial Institutions

The deep collaboration between SMEs and financial institutions is breaking free from the constraints of traditional credit logic, shifting toward a risk-sharing mechanism based on value stream restructuring. In Suzhou Industrial Park, multiple tech SMEs have introduced "dynamic intellectual property valuation models," incorporating patent technology's commercialization potential into credit evaluation systems. This marks a paradigm shift in financing from static asset collateral to future revenue expectations. By regularly disclosing R&D progress, market validation data, and closed-loop customer feedback, companies build transparent credit profiles that significantly enhance banks' risk pricing accuracy [11]. A precision manufacturing enterprise embedded cash flow stress testing modules in its partnership with a local city commercial bank, reducing loan approval cycles by 40% and increasing credit limits by 2.3 times compared to traditional models. This trust-building mechanism, rooted in information symmetry, not only strengthens resilient bank-enterprise relationships but also fosters a composite financial support framework combining "investment-loan linkage + phased credit enhancement." This evolution transforms financing services from passive responses to proactive integration into corporate growth cycles, creating a two-way reinforcement path for resource alignment and strategic synergy.

4.1.2. Use of Capital Markets for Financing

Capital market integration has become a pivotal strategy for SMEs to achieve financing breakthroughs. Companies with growth potential listed on the ChiNext, STAR Market, and New Third Board not only complete market-driven equity valuation but also upgrade internal governance through mandatory disclosure requirements. A Ningbo-based smart equipment firm exemplified this approach: its introduction of market maker mechanisms post-listing significantly boosted liquidity premiums, with a private placement reaching 1.8 times net assets. Meanwhile, regional equity exchanges '"Specialized, Refined, Unique, and Innovative" (SRII) sectors create tiered access points, enabling pre-IPO tech firms to secure funding. In debt instruments, Jiangsu Province's SME Collective Bonds model-supported by government-guided credit enhancement funds-achieved 67 basis points lower average coupon rates than benchmark loans in 2023. Asset securitization gains momentum, with manufacturers issuing ABS packages to align off-balance-sheet financing with cash flow cycles. Capital market engagement is evolving from simple financial support to comprehensive mechanisms driving corporate governance restructuring and resource reallocation.

4.2. Reduce Financing Costs

4.2.1. Optimize Financing Structure

The dynamic nature of financing structure configuration stems from the evolving lifecycle stages of enterprises. During the start-up phase, companies face unstable cash flows and insufficient collateral, making over-reliance on debt financing prone to liquidity risks. Introducing venture capital or angel funding not only alleviates financial constraints but also enhances decision-making efficiency through governance participation. As operations stabilize and profitability emerges, moderately increasing medium-to-long-term bank credit can leverage tax shield effects to optimize capital costs. Empirical data show that in 2022, among small and medium-sized manufacturing enterprises in Shenzhen, those with equity financing exceeding 40% of total capital maintained an average debt-to-asset ratio below 52%, significantly lower than the industry average. Meanwhile, hybrid financing instruments like convertible bonds and preferred shares provide flexibility for balancing control, dilution, and financial leverage. A new materials company in Jiangsu adopted an "equity + warrant" structure during its Series A financing, achieving valuation doubling within three years while keeping debt ratios within safe limits. Scientific financing structure allocation isn't a static ratio adjustment but a dynamic equilibrium process based on growth rhythm, industry cycles, and capital market conditions - fundamentally requiring coordinated development of financial flexibility and strategic agility.

4.2.2. Seek Policy Support

Local governments have established a multi-tiered policy response system to address financing challenges faced by small and medium-sized enterprises (SMEs). Fiscal interest subsidy tools effectively alleviate corporate debt burdens by targeting reductions in actual loan interest rates. Taking Suzhou Industrial Park as an example, the "Special Interest Subsidy Fund for Tech SMEs" implemented in 2023 provides annual subsidies of 1.5% for eligible loans, with a maximum support of 3 million yuan per company, significantly narrowing the financing cost range. Tax incentives focus on R&D tax deductions and income tax reductions for micro and small enterprises. A Zhejiang-based smart manufacturing firm, leveraging its high-tech enterprise certification, achieved annual tax reductions exceeding 4.7 million yuan, freeing up cash flow for technological upgrades and supply chain optimization. The realization of these policy benefits depends on enterprises' sensitivity to institutional environments and their application capabilities. Some regions have established full-cycle service mechanisms featuring "policy adaptation, application guidance, and performance tracking," directing policy resources to high-growth entities with precision. This low-cost funding mechanism created through public fiscal intervention fundamentally restructures the logic of corporate capital formation, enhancing synergies between external support and internal development.

4.3. Strengthen Financial Service Innovation

4.3.1. Promoting Innovation in Financial Services

Financial institutions need to deeply integrate into the operational scenarios of SMEs, accurately identify their cyclical funding needs and risk characteristics, and design flexible credit product systems. A city commercial bank leveraged regional industrial mapping to launch an "order pledge + dynamic credit" model, incorporating accounts receivable turnover days into risk control models to achieve linkage adjustment between loan quotas and fulfillment progress. The approval process introduced an intelligent verification system that cross-verifies tax, logistics, and invoice data, reducing the average approval cycle from 12 working days to within 72 hours. Some institutions piloted an "investment-loan linkage" service mechanism, collaborating with venture capital firms to conduct joint due diligence on enterprise technological maturity. Under a risk-sharing framework, they extended credit durations to align with R&D cycles of tech SMEs. These service innovations

not only enhanced capital supply adaptability but also restructured credit decision-making logic through process optimization, enabling dynamic synchronization between financial resource responsiveness and corporate operational rhythms. This approach strengthens the foresight and resilience of financing services.

4.3.2. Develop Internet Finance

Small and medium-sized enterprises (SMEs) have broken free from the constraints of traditional credit models reliant on collateral guarantees by leveraging internet finance platforms for financing. A prime example is a smart manufacturing company that secured tens of millions in funding through an equity crowdfunding platform during its critical R&D phase. Investors made decisions based on the platform's disclosed technical patents, team credentials, and market validation data, achieving efficient integration of capital with innovation resources. Some supply chain finance platforms utilize blockchain technology to trace transaction flows, capital movements, and information streams. Combined with machine learning models, they dynamically create credit profiles from multi-dimensional enterprise behavioral data, reducing credit approval cycles to within hours. This digital infrastructure-driven financing paradigm not only mitigates information asymmetry between banks and enterprises but also restructures credit evaluation mechanisms, shifting financing services from static financial metric assessments to substantive operational verification. Empirical evidence shows that companies integrating into mature internet finance ecosystems experience significantly improved financing accessibility, with average financing costs decreasing by 2.3 percentage points compared to traditional channels, demonstrating structural optimization in financial resource allocation driven by technological advancement (Table 2).

Table 2. SME Financing Transformation Strategies and Measures.

Transformation strategy	concrete measure
Expand financing channels	Strengthen cooperation with financial institutions and use the capital market for financing.
Reduce financing costs	Optimize the financing structure and strive for policy support.
We will strengthen innovation in financial services	We will encourage financial institutions to innovate services and develop Internet finance

5. Conclusion

This study examines the internal logic and practical pathways of business model transformation in SMEs through a financial constraint lens. Structurally analyzing financing challenges reveals how capital availability and allocation efficiency drive corporate strategic restructuring. Empirical evidence shows that traditional credit dependency and delayed risk pricing mechanisms constrain innovation investment. The integration of diversified financing systems-particularly internet finance-enhances capital matching precision through dynamic credit profiling, asset securitization, and supply chain finance technologies. Enterprises optimize debt-equity structures via capital market tools while reducing overall financing costs through policy-backed financial coordination. Financial innovations not only alleviate liquidity pressures but also facilitate the transition from resource-driven to data-driven value creation models. The research further demonstrates that enterprises with digital finance capabilities exhibit accelerated business model evolution and enhanced risk resilience, validating financial empowerment's catalytic effect on organizational transformation. Governments should improve credit infrastructure and regulatory frameworks, while financial institutions must deepen product customization and risk control model upgrades to jointly build an inclusive financial ecosystem that supports SMEs' sustainable transformation.

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