Research on Private Equity Financing Strategy of Import-based Cross-border E-commerce Companies

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Abstract: In recent years, as the network technology continues to be enhanced and the logistics level is developing rapidly, the cross-border e-commerce industry has developed rapidly. Compared with traditional trade form, the cross-border e-commerce industry has the advantages of few circulation links and controllable cost. As the representative of new-type trade, the cross-border e-commerce has accelerated its development and is expected to become the fresh growth engine of China’s trade and even the whole domestic economy. In this stage of flourishing development, traditional retailers, traders, e-commerce companies and even the listed companies have all set step into the cross-border e-commerce field successively in order to occupy a position in the market and share the industrial bonus. However, the product homogenization phenomenon is getting more and more serious, and the market competition has become fiercer and fiercer. Therefore, financing has become the key for further development of the middle and small-sized cross-border e-commerce companies to gain a firm foothold in the fierce market competition. Because debt financing is increasingly difficult to meet with the development demand, it is the first question for the middle and small-sized cross-border e-commerce companies to expand other financing modes. Wherein, private equity financing has become a particularly popular mode in our country in recent years. This paper takes the import-based cross-border e-commerce companies in A city as an example to discuss about the private equity financing strategy of the import-based cross-border e-commerce companies.

1. Import-based cross-border e-commerce companies and private equity financing

1.1 Import-based cross-border e-commerce companies

With the economic development in our country and increasing per capita income, the groups selecting outbound tourism and overseas shopping have become more and more. Since the golden week of Chinese New Year began in 2015, the consumption of our country has flowed abroad further. Accordingly, people have successively gone abroad for crazy shopping and consumption, which causes appearance of buying agent and “Group for overseas shopping”. Therein, the purchasing process generally refers to that the overseas friends act as the buying agents to deliver the internal express delivery to the inland; and another mode refers to making orders on overseas shopping websites and then delivering products to the inland through international transfer. The large quantity of overseas products shopping of Chinese people not only presents their strong purchasing ability but also reflects the formation of middle class in China and its increasing development. But overseas shopping has also directly impacted the domestic consumption market, which decreases the sales volume of domestic products, reduces the employment positions and declines the income. While buying agent and “group for overseas shopping” also exist with multiple problems involving supervision, law, taxation and settlement, appear with counterfeit and shoddy products, selling seconds at best quality prices, “grey custom clearance” and tax payment avoidance.

In order to realize standard and transparent overseas shopping for domestic people, which can be supervised as well, and reduce the circulation links and tax burden of imported commodities, our country has gradually promoted import-based cross-border e-commerce pilot and its development. The import-based cross-border e-commerce relies on domestic e-commerce platforms for Chinese
interface operation and RMB settlement, wherein, the commodities can be directly mailed in overseas and can also be imported to the area supervised by the customs, and then be delivered based on unified supervision of the customs, which is the source of “import-based cross-border e-commerce companies”.

1.2 Private equity financing

The enterprise development relies on financing, wherein, indirect financing through bank loans will be affected by the asset situation of enterprise and national macro-policy; In view of direct financing in security market, the enterprises face high threshold as well as various-level approvals and strict qualification requirement. Therefore, private equity financing is the most suitable financing mode for middle and small-sized enterprises.

Private equity financing can not just meet with the capital demand of enterprises; besides, the enterprises don’t need to repay the capital and pay the interest; meanwhile, the private equity investors can obtain higher profit. Each party takes what he needs.

2. Defects of import-based cross-border e-commerce companies in financing and countermeasures

2.1 Defects of import-based cross-border e-commerce companies in financing

The import-based cross-border e-commerce companies face low entrepreneurship cost, they just need to establish the e-commerce platform and own good import channel for network sales, therefore, many middle and small entrepreneurs are attracted. If the mode of making orders first and then purchasing from overseas customers to realize commodity delivery to domestic customers through the cross-border e-commerce supervision channel is adopted, the market is difficult to be opened, therefore, the import-based cross-border e-commerce companies tend to import a batch of commodities firstly for storing, and then conduct network sales thus to reduce the logistics time and enhance user experience. However, a large number of middle and small-sized import-based cross-border e-commerce companies generally have limited capitals and have no method to store a large quantity of products, besides, when they ask for financing from bank, they fail to win capital support owing to having enough fixed assets for pledging, but only few of them which have certain scale can obtain venture investment or Angel investment, others can only select private lending to alleviate capital pressure. Therefore, the import-based cross-border e-commerce industry faces the problems of difficulty in financing and high cost on the whole.

2.2 Countermeasures to problems faced by the import-based cross-border e-commerce companies

It is suggested that the commercial banks and the loan companies reduce the loan threshold, cancel the rigid requirement of fixed asset guarantee for the import-based cross-border e-commerce companies, and increase recognition on intangible assets, movable property, quantity of people on platform and trading volume. The import-based cross-border e-commerce companies refer to the traders for network sales, the cores of their assets are the quantity of people on platform and transaction scale. The purpose of import-based cross-border e-commerce companies for financing is to increase hardware equipment, platform publicity and commodity storage. The commercial banks are suggested to refer to the trade financing mode to conduct calculation and scientific evaluation on the transaction quantity and scale, which can be taken as loan basis.

Meanwhile, the government is suggested to give play to its guidance and promotion roles. It should encourage the policy banks to support more on the import-based cross-border e-commerce companies, guide the funds, securities, venture investments and other social capitals to enter the import-based cross-border e-commerce market thus to promote capitalized operation of the industry and cultivate the import-based cross-border e-commerce companies to realize direct financing through bond issuing and listing.
3. Guarantee measures to private equity financing of import-based cross-border e-commerce companies in A city

3.1 Signing confidentiality agreement

3.1.1 Hidden dangers for business secret disclosure

Due diligence should be conducted in the private equity financing process, involving law, business and technology. Owing to uncertainty on cooperation success, it is necessary to keep secret about the technology and information of the financing party.

1. Intermediary organ

Because the cross-border e-commerce companies in A city lack of experience in equity financing, they need to employ professional financial consultation institutions or personnel. Intermediary organs have become the bond between the investors and the financing party. Firstly, professional consultation institutions can reduce information asymmetry in the private equity financing process, master related business information through due diligence on the e-commerce companies in A city to reduce the worries of the investors, and make the e-commerce companies in A city know the qualification and strength of the investors; secondly, the professional consultation institutions can provide scientific, objective and professional consultation service for the e-commerce companies in A city for financing, such as analysis on the core advantage, risk distribution and operation strategy, which needs the e-commerce companies in A city to offer various materials.

To some extent, the professional consultation institutions can operate objectively, fairly and independently, which relies on the social credit environment, management system perfection and legal system establishment. However, for the intermediary organs engaging in private equity financing, our country still has no corresponding legal supervision system and guarantee system. And owing to lack of necessary supervision and guarantee, many intermediary organs exist with serious speculative behaviors, which will bring large damage to the development of private equity financing.

2. Investment institution

Similar to the selection of intermediary organs for the e-commerce companies in A city, it is necessary to be prudent to select the private equity investors. The board of directors should select the professional private equity investment institutions with profound investment background, rich investment experience and strong investment capital. But from perspective of private equity investment market, some companies have ever encountered with fraud behaviors, which tend to be investment companies fabricating their qualifications and carry out investigation on the target companies. These investment companies take advantage of the private equity investment institutions and present their largest characteristics: have no clear investment background, have no specific investment achievement, have low investment threshold and even need no threshold, poor investment continuity and stability. In addition, some private equity investors are recommended by intermediary organs, and no deep investigation is conducted on them.

3.1.2 Secret disclosure avoidance

Before the cross-border e-commerce companies in A city sign Term Sheet with the investors, no business secret should be disclosed to anyone, which is the fundamental principle. The due diligence of the intermediary organs or the investors plays an important role in the financing process, therefore, the related companies should cooperate actively. But the companies should also establish secret-disclosure risk mechanism, cope with various investigation appeals positively and smartly. For example, before preliminary due diligence, the cross-border e-commerce companies in A city can consider to collect and sort related internal materials firstly, divide the files according to the content disclosure degree, and then submit the materials to the needed party incompletely based on the due diligence list from the investors and the specific investigation situation. The higher level of secret information should be arranged in the later stage of investigation as much as possible, and should be even disclosed after the investment is provided.

The cross-border e-commerce companies in A city should also make preparations for
emergencies. For instance, the investors may give up the due diligence responsibility in midway. And it is necessary to guarantee safe operation of enterprises in the private equity financing process. Therefore, it is needed to avoid business information disclosure and guarantee smooth implementation of due diligence, which should be controlled timely and properly in practices.

3.2 Seeking for reasonable value estimation

From perspective of private equity investment market, the value of the middle and small-sized enterprises is usually underestimated by the investors. The value estimation of enterprises is the negotiation emphasis of the investors and the financing party, which will determine the equity quantity and proportion of dividend distribution, besides, the two parties refers to it to make price for equity transaction.

The cross-border e-commerce companies in A city belong to non-listed companies and exist with information asymmetry with the investment institutions, which may cause continuous competition of these two parties in value estimation. The different standpoints of these two parties cause large difference, the financing party naturally hopes to estimate the corporate value highly in order to meet with the capital demand and avoid being diluted too much in corporate equity; while the investors naturally hopes to estimate the corporate value lowly in order to obtain more profits and reduce investment risk.

3.3 Avoiding exit risk

If the financing party gets through the technical risk, market risk and operation risk but still can not reach to the situation of IPO, the investors will exit relying on the mode of buy-back. Usually, exit based on buy-back is largely relevant with valuation adjustment mechanism, when the involving two parties sign the agreement, the investors will require the related companies to reach to certain level of achievement within specified period. When the agreement is not reached, the equity buy-back clauses will be triggered, wherein, the equity buy-back amount contains certain proportion of compensation amount besides private equity investment amount. According to the current financing situation of the cross-border e-commerce companies in A city, adopt private equity financing to enhance corporate profitability and promote the healthy development of corporate businesses. If the contract clauses can not be satisfied, and no method for negotiation, the buy-back measure will be started, and the companies need to spend most of their money, which may cause cash flow insufficiency and financial risk.

4. Conclusion

The import-based cross-border e-commerce is still a popular industry in our country with promising future. Based on this background, the import-based cross-border e-commerce companies should grasp the development trend and adopt reasonable financing mode thus to enhance the overall strength and forge ahead constantly in the market competition.

References