

Analysis of the Method for Financial Investments for Small and Medium-sized Companies

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Abstract: Due to the Internet gradually into people's lives, there are more investment ways that are gradually being discovered. Investment has become a difficulty for some small and medium-sized companies which face the investment delimma of high risks and lack of money. These enterprises need to use limited resources to handle profitable revenue and the stability of financial chain, so that reliable investing tools and methods should be utilized. Based on the background, The topic of this paper is investment tools for small and medium-sized exterprises and several different financial investment methods including capital preservation, investing in treasury bonds, participating in crowdfunding and cash flow management (internal investment). These method, different with those for large companies, are low-risked, low-fund required. This essay find out characteristics and drawbacks of small and medium-sized companies. Meanwhile, it concluded problems about investment of those SMEs and give several ways and suggestions to help them gain profit more efficiently.

Keywords: small and medium-sized companies, financial investment, method.

1. Introduction

With the research of AI and Data Analysis model become more and more integrated, there are varies ways to help people from investing risked research and programme. Some small company still cannot find the suitable way or combinations to have internal and external investment. This paper examines the usefulness of cloud accounting in helping small and medium-sized exterprises (SMEs) to calculate, analyse and collate useful accounting information and provide companies with information for decision-making in the context of the market. Meanwhile, capital preservation investing is a general method of investing that reduces a certain amount of risk while preserving most of the amount invested. The study of how to invest in treasury bonds incorporates a tax exemption mechanism, which demonstrates that the more frequently interest is paid, the greater the tax exemption. And, to analyse treasuries one has to analyse both the coupon and the yield for the return. In the case of crowdfunding, the attributes of the project, the seniority of the promoter and the previous experience of the promoter team should be analysed to determine the probability of success of the project and the revenue for the enterprise. Lean sourcing should also be used to help reduce the burden of SMEs' expenses by having a long term and stable cooperation with the partner. This essay will not only provide investing method, but also will trigger some further research aspects like applications for crowdfunding and treasury.

2. The method and effect of analyzing the value of small and medium-sized enterprises

It's important for small companies to assess their risk tolerance, financial goals, and available capital before choosing an investment method. Nowadays, more and more information comes into the market because of the development of the Internet and social media. Moreover, It's quite hard to analyze one company by only searching for the financial statements. From judging the situation of different dimensions, such as marketing strategy and client feedback. Cloud accounting, which also means using online accounting software to help people make decisions more efficiently, and also provides useful services, such as the combination of financial information and non-financial one, gives suggestions of operation risks.

The reason that cloud accounting method is essential for SMEs is because of its lack of money and experience. A newly started company may invest a larger percentage of money in self-production. Unlike many large companies, they have unstable wholesalers. On one hand, cloud accounting may support small-sized companies with quite accurate suggestions about clarifying the purpose of the company both from forecasting the risks and profit of investment and making sure that the process is formalized. (An essay in *Financial View* said that Identifying potential investment opportunities in the market through exhaustive market research. And make investment decisions quickly to take advantage of opportunities and realize short-term investments to ensure asset appreciation.) One of the other advantages is that it helps to reduce both time and money for market research and science and technology in statistics.

The total framework for the SMEs financing can be more scientific professional and efficient. The first step is to make sure of the investing target and direction. Those SMEs can combine the external information supplier and the whole industry with the development inside the company. The second step required setting up investing goals, time taken, risks and territory with tests for evaluation and making decisions. SMEs can use the Internet, IoT and social networks to access the data resources they need to make decisions. This data is then standardized with the help of big data processing technologies (e.g. Hadoop, HPCC, Storm, Apache, Drill, Rapid Miner, etc.). Then, the financial and non-financial data required for investment decisions are extracted using data analysis and extraction techniques (e.g. ODS, DW, DM, OLAP, etc.) [1] After filtering out useful information, cloud accounting can help SMEs to be more competitive, not only reducing costs but also decreasing investment risks and selecting projects in specific areas more quickly.

SMEs should also consider the effect of finance, both internal and external. Through financing, the problem for small companies about lack of money for investing programs can be solved. When enterprise are lack of internal funds , firms then start seeking external debts to make sure their opportunities of investing [2]. The external formal finance is hard for those small firms to get, as the collateral is small. So an essential alternative one for similar financial purpose is called informal finance, defined as small, unsecured, and short-in-maturity funding capital in this study [3]. In addition, Wu, Si and Wu suggest that informal debts's speed, ingenious internal transaction fees and free-restrict from collateral requirements can be attractive to entrepreneurs [4]. So some small businesses may choose the way of informal financing, or the combination of formal and informal financing. Hayes and Allinson suggest that firms that use no external finance may suffer not only from financing constraints but also from cognitive financial constraints--a situation in which a firm does not obtain sufficient external funds to support its operations primarily because of entrepreneurs' cognitive style [5]. To conclude, those companies that overcome the difficulties of cognitive constraints and successfully get external finance could have much space for investing.

3. The way of solving the finance problems to help investing

Another method other than having the right constraints is to have bootstrapping. The methods like bricolage and bootstrapping make cooperative arrangements with early adopters to maximize the total utilize of resources [6]. Bootstrap is the effort the entrepreneurs pay to access the resources and funds for operating, Bookstrap can help those company owners find their own resources, and maximize the effect of financing and borrowing, by the way, it's a suitable way for small companies who has limited resources in the beginning stage of starting a company [7]. While including some social assets, like obligation, trust, and even friendship. There are a lot of independent variables which can enrich the frame of the bookstrap finance. The entrepreneur's preferences are one of the important components. For small companies, those decision-maker and owner may be the same person. The level of capital investment and investment for the program may lead the preferences for the owner to consider whether to concentrate on internal funding or external funding. And some entrepreneurs may make preferences for loans rather than the loss of stock equity. Those preferences may essentially combined with the reality situation like the money sent between transactions, the operation costs and the objectives of small businesses.

4. The method for financial investments for small and medium-sized companies

4.1. Capital preservation investment method

Small and medium-sized enterprises can through their own ability within the scope of the investment. After funding into the stock market, first, they have to ensure that they will not lose the 'capital fund' in the case of confirming the profit selling point. The 'principal' refers to the portion of the stock that you do not want to lose, and the 'sell at profit point' is the point at which you can sell the 'capital fund' portion of the stock for a profit when the profit reaches that point. And 'stop loss point' is when the total loss of the stock price falls down to the investor's 'capital fund', the investor can control the loss by selling all the stocks.

4.2. Investing in treasury bonds

Treasury bonds are bonds issued by government departments. The national credit is of the highest level. Therefore, not only does it have a substantial income, but there is no need to worry about credit issues. In addition to this, some countries' governments provide opportunities for collecting either free income tax or avoiding taxes.

When considering the tax-free mechanism of treasury bonds, we can determine which one is more suitable for a company to invest by comparing how much profit it makes on other corporate debt and treasury bonds. As an assumption, corporate debt has a coupon profit of $X\%$, while treasury bonds have a coupon profit of $Y\%$, and the average corporation pays an income tax like the government. The after-tax return on the corporate bond would then be $X\% \times (1 - a\%)$, and the return on the Treasury bond would be $Y\%$.

The higher the interest payment, the better the tax exemption. For Treasuries with the same holding period and the same coupon profit, but with a different frequency of interest payments, the higher frequency of interest payments results in faster cash flow, and the earlier reduction in cash flow from the tax exemption gives some small and medium-sized businesses more time to make decisions, and provides opportunities and possibilities for businesses to invest in other bonds as well as futures. Another form of treasury bonds, certificated treasury bonds, are treasury bonds issued through treasury receipt vouchers and are not transferable in the market. Certificated treasury bonds are only tax-deductible when interest is received at maturity, which is less frequent and less tax-deductible than book-entry treasury bonds in terms of cash flow. Since the tax-exempt income from certificated

treasury bonds is on the maturity date, it has a greater impact on the tax of the financing institution for the year, and there may be some fluctuation in after-tax profits [8]. When the rate of return on treasury bonds is the same, the higher the coupon, the better the tax-free effect the company has. Even if there is a capital loss at the end of the period, the higher the coupon can make up for the capital loss incurred at maturity. For the lower coupon, even if there is a capital gain at maturity, it is still necessary to pay its income tax. Therefore, at a time of choosing several treasury bonds with different coupons for investment, investors need to consider both the capital gain rate and the coupon, so as to achieve the maximum rate of return.

4.3. The method of crowdfunding

Rachel E wheat in the definition of crowdfunding writes that crowdfunding refers to the financing of cultural, social, or commercial projects by entrepreneurs as well as teams in not standardized intermediaries on the Internet [9]. Crowdfunding, as a new investment model under the Internet paradigm, can help SMEs to invest some projects which have quite potential to make success, which not only solves the problem of insufficient funds, but it also have possibility to get returns. Crowdfunding platforms are combined by project initiators, project platforms, and investors. And some SMEs can invest in some projects launched by other companies, and choose the projects that they have support for the company in terms of technical fields and so on.

Firstly, the attributes of the project, such as the target amount, return, project duration, project video and feedback are important factors that directly affect the investors' investment. Mollick pointed out that if the investment amount is too small, the project cannot have the ability to attract investment [10]. By contract, if the investment amount is too large, it may increase the uncertainty of the project. Some scholars have found that the larger the target amount of the project, the larger the scale of the project, which also reduces investor confidence due to its uncertainty. The less people invest in the project, the more difficult it is to succeed. Investors should position themselves for the right amount of money based on their own assessment of the project.

Secondly, an established promoter team is also an important criterion in determining whether a project is worth investing in. A technically-mature and large-sized team that can solve all aspects of the projects and plan the whole project in an orderly manner is more worthy of investment. The social capital of the team can prove the ability of the promoter, as well as the network resources, and Mollick's research found that the promoter's number of friends on social platforms has a positive impact on crowdfunding [10].

Thirdly, assessment when a project is done. It is possible to see other people's questions, doubts and opinions about that promoter and the results of the project through the platform, avoiding information asymmetry. Investors can also understand the popularity and fame of the project are based on the number of likes and comments on the platform, so that they can pay attention to whether there are other similar crowdfunding projects related by the same team and thus invest.

4.4. Cash flow management

Cash flow management can help small and medium-sized companies maximize the compression of the share of different resources. Promoting the efficient running of the business in the management process as well as increasing the operational capacity and profitable capacity. A company can achieve efficient cash flow and reduce capital loss in the process of reducing stocking.

The traditional purchasing model is to forecast the quantities to be purchased based on inventory. It does not take into account changes in market demand. However, by implementing Lean Purchasing, the emphasis is on the company's ability to follow up with the market. After receiving the sales list and continuously generating task orders and bills of materials, the corresponding procurement

methods are adopted to reduce production costs. Companies and suppliers can adopt a strategic partnership. The supplier is able to deliver faster when there is a new order. Such an approach makes the production efficiency much higher. Under this model of stable cooperation, through bulk purchasing, suppliers and small and medium-sized enterprises can reach a long-term cooperation relationship. It is also possible to establish an Internet model, In the context of the development of information telling, enterprises should actively use Internet technology in the procurement process and suppliers to negotiate and arrange production activities in an orderly manner [11]. The Internet can help us get more information and with less time. For example, if a co-operative publishes information about a lack of stock on social media, small and medium-sized companies can search for other suppliers in the vicinity to conduct transactions, produce goods faster and avoid the situation of oversupply.

However, by implementing Lean Purchasing, the emphasis is on the company's ability to follow up with the market. At the same time, strict control of budget management can enable enterprises to effectively control the use of various types of resources. In the process of management, solutions can be developed according to the delivery date of the product. After the reasonable arrangement of labour and material daily workload, costs can be reduced.

5. Conclusion

This paper mainly demonstrate several problems about the company and methods to increase the whole efficiency and decrease risks of investing. Facing the more complete and mature market system today, more information is given to those enterprises through the advanced Internet. Choosing the right method can not only make a profit through the high efficiency of processing information in a refined cloud accounting system but also be effective in lowering risks through searching for preferable and helpful information for a particular method. SMEs can put their sight on investing treasury bonds which is stable and credible and crowdfunding which researching new technology or accounting systems. This essay didn't include the complete process of data analysis and make decisions of cloud accounting, so further research may put more concentration on these topics.

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