

The Business Model Innovation of Small and Medium-sized Enterprises

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Abstract: For Small and Medium-sized Enterprises, Business model innovation is an effective way to promote business transformation and upgrading. The innovation of business model depends on the choice of innovation approaches. Based on the competitive market, Small and Medium-sized Enterprises should take advantage of all opportunities to achieve specialized operating. In order to promote their sustainable development, Small and Medium-sized Enterprises are supposed to foster the core driving mechanism of business innovation and promote the development of e-commerce, and finally cultivate their own core competitiveness.

Keywords: Small and Medium-sized Enterprises. Business models.

1. Introduction

1.1. Research background

At present, the world economy is undergoing new changes, technological revolutions is quietly taking place, and the requirements for innovation-driven development are increasing year by year. With innovation as the leading factor, small and medium-sized enterprises have become the main force driving innovation and play an important role in economic development. Peter Drucker once said, "The competition between enterprises today is not only between products and services, but also between business models." However, for Chinese small and medium-sized enterprises, the traditional view is to take product innovation and technological innovation as the fundamental way to gain profit, and do not pay attention to business models. For small and medium-sized enterprises, there is no lack of technological innovation, but there is a lack of commercial operation mode to transform scientific and technological achievements into reality. Therefore, small and medium-sized enterprises must make good use of their technological advantages and establish a business model suitable for themselves. However, small and medium-sized enterprises lack advantages in economic power and other aspects, so they should fully consider the environment when choosing business models and seize the opportunity to establish a business model suitable for their own development.

1.2. Research purpose

There are two main purposes of this paper. First, based on existing researches and materials, this paper explores the possible shortcomings and problems of small and medium-sized enterprises in the process of development from the perspective of business model, and finds out the necessity and importance of small and medium-sized enterprises' business model innovation. Second, finds out the important factors affecting the business model innovation of small and medium-sized enterprises, and puts forward the basic ideas to promote the business model innovation of small and medium-sized enterprises, so as to help them win sustainable competitive advantages and achieve long-term development.

1.3. Research significance

1.3.1. Theoretical significance

(1) It enriches the research on the business model of small and medium-sized enterprises. The current researches on business models mainly focus on large enterprises, whose business models are more mature. The researches on the business model of small and medium-sized enterprises are insufficient. In addition, most of the researches on small and medium-sized enterprises focus on the development of small and medium-sized enterprises and the impact of national policies, and the analysis from the perspective of business model is less. This paper studies from the perspective of small and medium-sized enterprises business model innovation, enriches the knowledge system in this area, and extends the research of small and medium-sized enterprises and business model.

(2) It enriched the theory of business model innovation. Previous studies on business model innovation mostly focus on the concept of business model itself, but lack of theoretical support to combine with enterprise innovation.

1.3.2. Practical significance

This paper provide knowledge for small and medium-sized enterprises to carry out business model innovation. This paper studies the importance and necessity of small and medium-sized enterprises business model innovation, which helps them better understand the important role of business model for their own development, and helps enterprises to examine their existing business model and find the improvement direction of business model innovation, so as to concentrate their unique advantages and achieve long-term development.

1.4. Research status

At present, business model innovation can be divided into three categories. Some people believe that business model innovation is the innovation of the original business model. Weill and Vitale(2001) argue that a business model is a different combination of multiple modules. They believe that business model innovation can be achieved by changing the rules between business model modules or adding new modules. Some believe that business model innovation is the innovation and adjustment of enterprise value chain. Amit and Zott(2010) pointed out that business model innovation refers

to designing new operating systems or improving existing operating systems by reorganizing existing resources and partners. Others believe that business model innovation is the innovation of the elements of business model. Osterwalder(2004) believes that enterprises can innovate business models through three steps, including describing different parts of business models, in-depth analysis of business models to create new business ideas, and integration of business innovations to form new business models. Taran(2016) proposed the elements of business model based on "5V" and discussed the potential path of business model innovation on this basis.

1.5. Research frame

First of all, this paper reviews the relevant researches, explains the research background and purpose of this paper. Secondly, the necessity of small and medium-sized enterprises' business model innovation is put forward. Thirdly, the paper analyzes the importance of small and medium-sized enterprises business model innovation from multiple perspectives, for example, business model innovation is an important way to improve the competitiveness and the environmental adaptability. It is also an important way to size more opportunities Finally, according to the relevant factors of business model innovation, this paper puts forward the basic ideas to promote the business model innovation of small and medium-sized enterprises, for example, the companies are supposed to encourage specialized operation based on market segmentation and foster the driving mechanism as well as promoting the development of e-commerce.

2. The Importance of Small and Medium-sized Enterprise Business Model Innovation

As the special subject in the market economy, Small and Medium-sized Enterprise are not only an important economic force to promote social development, but also an important part of scientific and technological innovation. They are under greater pressure of production and operation when compared with other large enterprises. On the one hand, most Small and Medium-sized Enterprise are in the low-end of the industrial chain. Their limitations and deficiencies bring serious problems such as high energy consumption, low efficiency, homogenization of products, overcapacity and etc which will result in weak profitability. On the other hand, high cost of capital, manpower, land and other factors with insufficient utilization efficiency will generally generate questions like financing difficulties, limited development space and etc. Under the economic system that emphasizes the transformation of models and adjustment of structures, Small and Medium-sized Enterprises are facing new external environment and internal conditions which will exert pressure for their development even survival.

Despite the constraints of resources, capabilities and uncertain external environment, Small and Medium-sized business owners still have a strong desire for innovation and optimistic development vision. Especially nowadays with the development of Internet economy, the emerging technology enables the Internet to connect every walk of life and achieve deep integration. The personalization of market entities is growing day by day, and the market demand is gradually diversified. The increasingly active economy continues to produce new products, new markets, new formats and new

models, providing development space and choices for Small and Medium-sized Enterprises. With the new development opportunity and the huge market space as well as increasing consumption potential, Small and Medium-sized Enterprise have the opportunity and ability to innovate their business models and enhance their core competitiveness. This also means that for Small and Medium-sized Enterprises and their managers, how to meet new challenges and grasp hidden opportunities is a realistic problem that must and should be faced.

The Business model, as a mode of operation of the main body of the market economy, connects the value of customer demand at one end, and the value obtained by the enterprise at the other end. Similarly, business model innovation means to better meet the needs of customers and the interests of enterprises. It is a way to achieve better communication and interaction between Small and Medium-sized Enterprises and market consumers, promote consumption by delivering value to consumers, and help enterprises achieve the goal of value maximization. Business model innovation can also be interpreted as this: from the perspectives of value chain and industry chain, Small and Medium-sized Enterprise focus on the needs of target customer groups to integrate their resources to optimize resource utilization and maximize their core competitiveness and in the end not only provide diversified and personalized products and services to meet the growing demands of customers, but also through this way to maximize the interests of enterprises, and ultimately present a win-win situation between Small and Medium-sized Enterprise and customers. This can be called a momentous choice and a fundamental way to survive in the increasingly competitive market, especially for Small and Medium-sized Enterprises that facing increasingly serious product homogenization and smaller market space, and it is also the basis and guarantee for maintaining growth and development, as well as a key step to get rid of management crisis and achieve sustainable development. To some extent, under the background of rapid economic development, the advancement of business models has become the focus of enterprises to cultivate new competitive advantages. For Small and Medium-sized Enterprises, the essence of their transformation is the innovation and transformation of business models.

Due to the important role of business model transformation for Small and Medium-sized Enterprises, the research on business model innovation of Small and Medium-sized Enterprises is also deepening in the academic circle. Although there are different views, a consensus has gradually formed that Small and Medium-sized Enterprises have their own uniqueness, and their development needs to be explored in combination with the particularity and characteristics of their own. Simple copying or imitating the successful business model experience of other internationally renowned companies or large groups will produce the counter-effect; Simply quoting modern enterprise management theory and directly applying it to the business practice of Small and Medium-sized Enterprises' own business model is also not practical.

3. The Necessity of Small and Medium-sized Enterprise Business Model Innovation.

As the focus and foothold of various business models of

enterprises are activities to achieve value, in order to achieve their own competitive advantages, Small and Medium-sized Enterprise urgently need to find business models that are consistent with their conditions and particularities, and conduct profit point analysis, target customer analysis and market analysis to identify its market positioning and unique status, and on the basis of analysis, try to establish communication and cooperation mechanisms at different levels with partners in the supply chain and industrial chain, including supplier collaboration, dealer collaboration, etc., so as to form unique value network and closer contact, closer collaboration and more combined operation of various parties. Thus, it provides a multidimensional innovation basis for the business model innovation of Small and Medium-sized Enterprises and finally realizes the joint efforts of various parties to achieve the goal of maximizing customer satisfaction and maximizing enterprise value.

3.1. Business model innovation is an important way to improve the competitiveness.

Business model innovation is an important way for Small and Medium-sized Enterprises to integrate internal and external resources, to effectively improve their own competitiveness, and to maintain competitive edge in the long term.

The innovation of the business model should be based on the internal and external conditions of an enterprise, and is the choice of combining situations of the market, customer, stakeholder and other reality factors, so it can reflect the overall view of an enterprise. The choice of business model and its innovation starts from the commanding heights of enterprises, based on how to effectively integrate all internal and external resources of enterprises, improve the efficiency of all processes, so as to create more enterprise value effectively and quickly. Fundamentally, it takes the effective communication and exchange of resources and capabilities of Small and Medium-sized Enterprise into consideration. This starting point helps Small and Medium-sized Enterprise to understand the effective integration of various elements, maximize the value of the enterprise, and effectively improve the operation efficiency and core competitiveness of Small and Medium-sized Enterprise.

Affected by the uniqueness of Small and Medium-sized Enterprises, due to their small asset scale, weak ability and low speed of asset appreciation, and single business scope, they cannot fully meet the large demand generated by the development and expansion of enterprises. This realistic and difficult contradiction hinders the operation and development of Small and Medium-sized Enterprises. Considering the current situation of market, Small and Medium-sized Enterprises often do not have the competitive edge compared with large enterprises in the industry and will be treated unfairly by the market occasionally. Because large enterprises have strong economic power and technical strength, they can choose the mode of technological innovation. Small and Medium-sized Enterprises, affected by their weak strength, often have the characteristics of small scale, simple organizational structure, simple management level and lack of technological innovation, they can choose the mode of business model innovation. They can adjust and update the existing business model in a timely manner according to the changes in market and the needs of customers, and change and innovate the business model, so as to effectively create more value for consumers and maximize the value of

enterprises. Therefore, from a certain point of view, the innovation of business model helps Small and Medium-sized Enterprises to realize the advantage of low cost, thus promoting the improvement of competitiveness and gaining the competitive edge.

3.2. Business model innovation is an important way to improve the environmental adaptability.

Business model innovation is the key ability that Small and Medium-sized Enterprise should have to improve their environmental adaptability and competitiveness.

Business models can reflect the development potential of Small and Medium-sized Enterprises to a certain extent, and its reflection can be holistic and dynamic. The enterprises with the best business model are resilient which help those companies survive in the cruel selection of the market, and can help them acquire long-term development ability and gain more living space. Business models are personalized, and the uniqueness of different enterprises determines the non-replicability of different business models. Small and Medium-sized Enterprises cannot simply copy and innovate business models but should build and innovate on the basis of resource integration and comprehensive research on different stakeholders. If the business model is defective, even if the enterprise has a relatively perfect strategy, reasonable organizational structure, efficient management and execution capabilities, the enterprise will not be able to obtain the expected results.

Nowadays, with the rapid development of globalization, Small and Medium-sized Enterprises should integrate their internal and external resources, take their unique core competitiveness as the center, and choose to innovate their business models according to the changes of environment. If the development space is limited, it is necessary to find reasons from the business model perspective, rather than blindly focus on technological innovation or institutional innovation. In combination with the above analysis, due to the limitations of Small and Medium-sized Enterprise and the fact that Small and Medium-sized Enterprise are mostly in the middle and low end of the industrial chain, they are faced with a market with large demand but strong changes, and also do not have significant changes in technology in the short term. Coupled with the flexible changes in market demand, it is necessary to innovate and design the best business model. This is also a key ability for Small and Medium-sized Enterprises to survive even win the market competition.

3.3. Business model innovation is an important way to size more opportunities

The road of business model innovation provides Small and Medium-sized Enterprise with more development opportunities.

The business model of most Small and Medium-sized Enterprise in China in the early stage is irregular, which reflects to a large extent the choice preference of the owners. The choosing cycle is long and the process is difficult, and most of the owners also adopt the psychology of following each other and crossing the river by feeling the stones when choosing the business model. The enterprise will have vitality if successful, and if it is not successful, the model will be changed again. There are also some enterprises with more formal business models, and they use and divide their resources through learning and applying successful business

models. The above business models put their profit in the first place. Although the profits of enterprises are gained in the short term, they still ignore the development potential and risk-bearing capacity of Small and Medium-sized Enterprises, resulting in a large amount of resource waste.

In the rapidly developing market, in order to find and grasp opportunities suitable for them, Small and Medium-sized Enterprise need to find a business model which is suitable for them. When facing great changes in the business environment, it is the best choice to actively adapt to the environment and change the business model occasionally. This requires small and medium-sized business owners to establish good confidence in the future development of their enterprises. In the initial stage, enterprises should pay more attention to expansion and development, and once they enter the growth stage, they should pay more attention to the sustainable growth of enterprises. Different stages in life cycles adopt different business models. Take the initiative to innovate the business model and find the right time in the competition in order to seize their own opportunities. At the same time, enterprises at different stages of development have different characteristics and corporate goals, so the focus of business model innovation is also different. In the initial stage and growth stage, the enterprise has just started to develop and the market is unstable in which it needs stable customers to ensure profit, so it will focus on customer value innovation at this stage. After entering the mature stage, the main direction and aim of business model innovation of Small and Medium-sized Enterprise will change to cost-structure and profit model innovation. Although the business model of Small and Medium-sized Enterprises is generally sustainable, under the influence of this characteristic, the business model can be the most simplified and at the lowest cost. However, it also needs to change with the situation of the enterprise. At the same time, the business model innovation of Small and Medium-sized Enterprises should also have humanistic concerns which include paying attention to corporate and social responsibility, and valuing ethics as well as interests and so on. All entities should not violate corporate ethics and market ethics just because it hinders the maximization of corporate value or the company wants to take the acquisition of economic interests as the goal. In recent years, American financial innovation has been called excessive innovation by several economists, and this excessive innovation eventually led to the emergence of the global economic crisis, which is essentially a crisis of unethical and inhuman innovation.

4. How to Promote Small and Medium-sized Enterprise Business Model Innovation

To a certain extent, the success or not of business model innovation depends on whether the innovation approach is correct or not. At present, the complex economic environment has brought urgent challenges to the survival and development of Small and Medium-sized Enterprises. For now, the basic idea of implementing business model innovation for Small and Medium-sized Enterprise can be understood as follows: After ensuring that Small and Medium-sized Enterprise realize the importance of business model innovation, Small and Medium-sized Enterprise will shape their unique core competitiveness in daily operation and development, then find a sustainable business model based on their own uniqueness and promote the innovation of

their business model to transform and upgrade.

4.1. Based on market segmentation to encourage specialized operation

Companies should adhere to segment market, exploit the advantages to the full and improve the sustainable development ability

Enterprises can only maintain specialized operation to achieve sustainable development. In the highly competitive market, the level of specialization affects the formation of core competitiveness and the shaping of competitive advantage, and then affects the sustainability of development. It is necessary to separate investment activities and management activities, and achieve diversified investment and professional management. This is not static all the time, after a certain period of development and progress, the initial specialization can achieve diversification under certain conditions. Market segments are defined by customers' different needs. Small and Medium-sized Enterprise should focus on the target segment market. Once the market demand changes, they need to quickly change their strategies, so as to improve the flexibility and competitiveness of enterprises and put all resources and capabilities into the target sub-market. At the same time, it is conducive to Small and Medium-sized Enterprises to explore new market, strive for the greatest market advantages, and better adapt to the personalized and diverse requirements of consumers and the entire market. With the continuous expansion and maturity of the market, the division of market segments is becoming more and more detailed, but the marketing and publicity ability of each enterprise is limited, so Small and Medium-sized Enterprise should take advantages of market segmentation and choose the target market most suitable for their own characteristics.

4.2. Foster the driving mechanism of Small and Medium-sized Enterprises business model innovation

Cultivate the dynamic mechanism of Small and Medium-sized Enterprises business model innovation and create a good environment.

The dynamic mechanism of Small and Medium-sized Enterprises business model innovation comes from the innovative spirit of Small and Medium-sized Enterprise owners, the promotion of strategy implementation and the support of the government. First of all, business model innovation inspired by entrepreneurship is to realize the interaction between entrepreneurship and Small and Medium-sized Enterprises business model innovation. By stimulating the entrepreneurial spirit of small and medium-sized business owners, the above management layer leads to the formation of innovative ideas and efficient enterprise spirit, so as to actively walk out of the market dilemma of competition. Entrepreneur orientation is an important term of entrepreneurship. This orientation reflects the identification and utilization of opportunities, which will directly affect the growth of Small and Medium-sized Enterprise themselves. Entrepreneur orientation plays a core role in business model innovation. Whether entrepreneurs can achieve unity in rights, responsibilities and interests, and whether they have a positive impact on entrepreneur orientation, experience, resources, and business environment are the driving forces to enhance entrepreneur orientation.

Second, improve the ability of strategy execution to provide a viable basis for innovation. Good strategies are

ubiquitous but effective execution is the fundamental difference. If you can keep execution-oriented, in the business model innovation work, the execution will help the enterprise be prominent compared with other enterprises. The difference of execution ability is the major difference between an enterprise and its rivals. In the case of ensuring the premise and direction of maximizing enterprise value, the realization and guarantee of the strategic objectives is the most important thing. Therefore, Small and Medium-sized Enterprise need to take the initiative to formulate specific strategic projects and execution plans at all levels to ensure effectiveness, build an efficient executive team which will pay attention to responsibility, innovation and result-oriented, and make strategic execution a viable basis for ensuring business model innovation. In addition, it is necessary to increase fiscal and tax policy support to provide a good external environment for Small and Medium-sized Enterprises' business model innovation.

4.3. Promote the development of e-commerce

Promoting the specialized development of Small and Medium-sized Enterprise' e-commerce

As a new business model, the development of e-commerce has strongly promoted the innovation of Small and Medium-sized Enterprise' business models. The coming era of e-commerce provides enterprises with new business model choices, but also brings challenges. E-commerce has the characteristics of low cost, high efficiency and globalization, so Small and Medium-sized Enterprises need to have a certain strategic vision and determination to adhere to the e-commerce model. By joining some well-known and mature

business platforms, Small and Medium-sized Enterprise can obtain greater results with less investment in a certain period of time; The self-built network business platform can also help Small and Medium-sized Enterprises to integrate resources and explore new markets. The specialization and deepening development of e-commerce provide a more mature network platform and environment for Small and Medium-sized Enterprises to transform and upgrade. Therefore, the rational use of traditional channels and brand advantages with applying the electronic platform can form a positive situation in which Small and Medium-sized Enterprises can win a place in the competitive activity.

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