

# The Impact of Venture Investment of E-Commerce on Enterprises

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**Abstract:** E-commerce not only provides development opportunities for enterprises, but also brings certain challenges to enterprises. In the context of the continuous improvement of the market economic system, venture investment is increasingly favored by small and medium enterprises. Although venture investment has promoted the development of enterprises to a certain extent, there are many problems in the process of introducing investment. Based on this, this paper briefly introduces the relationship between e-commerce and venture investment, and its impact on enterprises.

**Keywords:** e-commerce; venture investment; the impact on enterprises

## 1. Introduction

In most cases, emerging industries and some industries at development time always attract many venture investors. E-commerce is a fast-growing emerging industry in this century, and it has also engraved the imprint of venture investment. The introduction of venture capital has realized the organic integration of capital and economy. With the influx of capital, the development of the e-commerce industry has received a lot of financial support. For instance, the rise of Taobao, Jingdong, Amazon and other large Internet platforms is inseparable from the operation of venture investment. With the application of e-commerce and the introduction of venture capital, enterprises have achieved rapid development, but they also face certain challenges.

## 2. The relationship between e-commerce and venture investment

E-commerce and venture investment can be said to be closely related and go hand in hand, it can also be said that e-commerce is developed based on venture investment. As far as the actual situation is concerned, venture investment plays a pivotal role in the development of e-commerce. Before an e-commerce enterprise starts formal production and operation, venture capital has already begun to intervene and expressed its support, otherwise there will be no current development of e-commerce. At the same time, it is precisely because of the birth and development of e-commerce that the unique advantages of venture investment are demonstrated. The organic integration of the two has created many business legends, many Internet companies and e-commerce companies show the charm of the combination of the two, such as Yahoo, Amazon and so on.

Investment Distribution Q1 from 1993 to 2019  
 Data from: investment and financing data since 1993 in Octopus Collector (Viter43823)

Year	Enterprise service	E-commerce	Entertainment & Media	Health care	Hardware	Finance	Local life	Education	Automobile& Transportation	Game	New industry	Social networking	Software tool	Tourism	Real estate service	Sports& Fitness	Advertising & Marketing	Logistics	Agriculture	Total	
1993											11								11	22	
1994																				11	11
1995																				11	11
1996																				11	22
1997																				11	22
1998																				11	55
1999																				11	18
2000																				11	26
2001																				11	20
2002																				11	15
2003																				11	21
2004																				11	27
2005																				11	67
2006																				11	118
2007																				11	178
2008																				11	219
2009																				11	300
2010																				11	660
2011																				11	1138
2012																				11	1334
2013																				11	1830
2014																				11	4071
2015																				11	9336
2016																				11	8798
2017																				11	7473
2018																				11	6460
2019																				11	1019
Total																				11	43822

Table 1: Heat map of domestic investment and financing industry from 1993 to 2019

Under normal circumstances, when venture investors conduct investment activities, they tend to choose popular industries in the new economy as investment projects, because such industries are in their infancy, with huge market potential and good growth potential. Preempting the market advantage in the early stage can bring rich rewards to investors in the later stage, so there will be many investors rushing to invest, which is clearly reflected in Table 1. At the same time, it can be seen from Table 1 that enterprise services in the business model of To B are the first choice for venture capital in recent years, and early venture capital originated in two industries: new industries and hardware; the year of 2015 and 2016 were the peak of investment in the field of To C; the investment enthusiasm in the three industries, medical and health care, hardware and education, has been maintained steadily; the logistics and agricultural industries are large and difficult to digitize, and they have always been relatively “unpopular” industries in the TMT field.

### **3. The impact of e-commerce on enterprises**

#### ***3.1 Opportunities***

##### ***3.1.1. Cost saving***

###### ***3.1.1.1 Saving purchase cost***

With the development of e-commerce and the use of automated office procedures, the procurement efficiency of enterprises has been greatly improved. Procurement-related staff can directly handle the procurement business online; in the network environment, information and data can be shared in real time, and the procurement business can be handled online, which can save labor costs, reduce the costs of mailing and faxing of letters and faxes caused by procurement affairs, and save the procurement costs of enterprises to a large extent.

###### ***3.1.1.2 Saving inventory cost***

Under the background of e-commerce, enterprises do not need to purchase in large quantities, and at the same time, the products produced can be sold quickly in a short time, and the inventory of enterprises is reduced, which in turn reduces the economic expenditure of enterprises in terms of inventory and enhances the market competitiveness of products.

##### ***3.1.2. Enhancing the strength of the enterprise***

###### ***3.1.2.1 Improving the response speed of enterprises***

With the application of e-commerce, first, enterprises can catch the market dynamics more quickly, and take countermeasures at the first time, formulate appropriate sales plans or adjust production programs, increase sales, reduce inventory, enhance production capacity; second, on the online platform, consumers can directly contact the manufacturer, eliminating a series of intermediate links such as procurement and transit, breaking the original economic operation mode; third, the scope of enterprises to find trading partners is limited because of the limitation of geographical conditions and other factors in the previous business model, but now, e-commerce has broken through the previous scope restrictions, and broadened the scope of enterprises to find trading partners to a global scope, which provides the development of enterprises with new opportunities and enhances the competitiveness of enterprises.

###### ***3.1.2.2 Highlighting enterprise personalized service***

In the network environment, communication between enterprises and consumers is more convenient. In order to improve consumers' consumption experience, enterprises have added personalized service functions to customize production or provide personalized services according to consumers' personal wishes or needs. In the past, the operation and production mode of enterprises was a kind of popular operation, which could not meet the consumption needs of the current people.

#### ***3.2 Challenges***

##### ***3.2.1. Security risks***

Security risks include two aspects: First, network security risks. With the rapid progress of modern information technologies such as Internet technology, big data technology, and cloud computing technology, many network security incidents emerge one after another, such as information data loss,

tampering, hacker attacks, and virus intrusion, etc. In order to avoid these situations, enterprises can use firewall technology, information encryption technology and other technologies to deal with them. Second, online payment risks. In various processes of e-commerce, online payment plays a pivotal and important role, and it is convenient and efficient. However, the e-commerce payment system has not yet been established perfectly. At the same time, our country's banking industry and online settlement have not yet achieved a perfect connection. E-commerce online payment still uses a third-party payment platform, and payment risks still exist. Therefore, solving the issue of payment security is the top priority of various affairs in the development of e-commerce <sup>[1]</sup>.

### **3.2.2. Logistics risk**

Logistics is the basic guarantee for the smooth development of e-commerce. Delivering goods to consumers in good condition is a very important part of all aspects of e-commerce. However, there are many problems in our country's logistics industry, such as high transportation costs, high storage costs, unreasonable distribution route planning, and the lack of matching logistics-related facilities, etc., increasing the risk of commodity transportation, which may lead to the acceptance of a damaged commodity by consumers in the end, which reduces the consumption experience of consumers and is not conducive to the maintenance of enterprise customer resources.

## **4. The impact of venture investment on enterprises**

### **4.1 Opportunities**

#### **4.1.1. Broadening financing channels**

Bank financial capital and government funds are the foundation of the traditional financial system. Under this system, the financing mode of enterprises is relatively simple. With the development of venture capital, a modern financial system centered on the capital market has gradually formed and developed rapidly. The financing methods of enterprises are gradually diversified, and changes has come along with it in the financial system. Under the traditional financing mode, it is difficult for enterprises to obtain financing in the financial market, and the development of venture investment has made the financing channels of enterprises more and more diversified, making up for the shortcomings of the traditional financing mode to a certain extent, and building an emerging industry with risks and benefits, high risks and high returns, in this context, enterprises enjoy diversified financing services. Usually, venture investment is composed of four parts: one is government funds, the second is enterprise funds, the third is financial institution funds, and the fourth is the individual.

#### **4.1.2. Enhancing the level of enterprise management**

Generally speaking, the investee knows its own products or services very well, and has absolute faith in it, and firmly believes that its development prospects are good, but the investee is relatively weak in corporate management. However, the investor has rich management experience and professional management talents. In order to promote the better development of the investee, the investor will definitely participate in the management of the enterprise, and formulate a management system that conforms to the actual situation of the enterprise according to the actual production and operation of the enterprise and the future development plan, and continuously adjust and improve it in the daily operation process, so as to make the management system of the enterprise more sound and reasonable.

#### **4.1.3. Cases**

Jack Ma and his original entrepreneurial team raised 500,000 yuan to set up an e-commerce site that can serve small and medium enterprises all over the world--- Alibaba. Because of its huge market potential and bright development prospects, it got its first 5 million dollars in venture funding from Fidelity, which helped bail out Alibaba at the moment. Meanwhile, during the two-year bear market from April 2000, it attracted a \$20 million investment from SoftBank, plus the investments from Goldman Sachs, Fidelity and other institutions, and the financing made Alibaba survive safely. In 2004, the Internet bubble was about to burst, which made Goldman Sachs and other institutions once again optimistic about the development prospects of Chinese e-commerce. In February of the same year, Ali received a huge strategic investment of 82 million US dollars. In August 2005, Yahoo and Softbank once again invested hundreds of millions of dollars in Alibaba. After that, Alibaba founded Taobao and Alipay, acquired Yahoo China, created Ali software, and successfully went public. The "e-businessman" created by Alibaba is a typical representative of the current development of the Internet in China. It is

also a case of great achievements through venture investment, and investors have also obtained a lot of investment income because of their precise investment vision.

#### **4.2 Challenges**

Appropriate and reasonable venture investment will help the company to achieve better development, but if too much venture capital is introduced, it will easily lead to the dispersion of the shareholding structure, that is, the company has many major shareholders, but the actual shareholding ratio of each major shareholder is relatively low. At the same time, the shareholding ratio of these major shareholders makes them unable to have certain decision-making power at the shareholders' meeting<sup>[2]</sup>. For example, the founder of X company has brought in too much investment, and his original shareholding ratio has dropped from the initial 21% to 3.8%. He disagreed with other directors at the shareholders meeting, and his own shareholding was not enough to influence the decision of the board of directors, eventually he left the company. Moreover, if the shareholding structure of the company is relatively scattered, it is very easy to face acquisition. The acquirer can buy stocks from the major shareholders or small and medium shareholders, and eventually become the largest shareholder of the enterprise, and then seize the control of the enterprise. In this case, in order to seize the control of the enterprise, the focus of enterprise operators will be deviated, and the daily operation and management of the enterprise will be neglected, resulting in the gradual reduction of the operation efficiency of the enterprise, which may eventually lead to the merger and acquisition of the enterprise. Therefore, it is necessary to formulate a scientific and reasonable investment introduction plan in light of the actual development needs of the enterprise, to avoid excessive introduction of investment, resulting in the emergence of dispersed equity, and to enhance the enthusiasm of shareholders to participate in the operation and management of the enterprise.

#### **5. Conclusion**

To sum up, as an innovation in the production, operation and management of an enterprise, e-commerce should not take financing from venture capital as the first choice, because venture investment is an important auxiliary means in the process of enterprise development, not the development purpose of e-commerce. There is a close relationship between e-commerce and venture investment, both of which can promote enterprises to a higher level to a large extent, but enterprises also need to pay attention to development challenges such as logistics risks, security risks, and the risk of mergers and acquisitions.

#### **References**

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