Research on Corporate Financial Strategy Based on Two Dimensions of Life Cycle and Value Chain

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Abstract: Financial strategic management is the extension and development of strategic management ideas in the field of financial management. This article first sorts out relevant research at home and abroad, and then elaborates concepts such as the definition, characteristics, types, and necessity of financial strategy. Finally, based on the theory of life cycle theory and value chain, it studies the formulation and implementation of corporate financial strategy from the two dimensions mentioned above.

1. Introduction

With the rapid development of knowledge economy and strategic management, the internal and external operating environment of the company has changed tremendously, and the company's management model has also been adjusted accordingly. The importance of financial strategy formulation and implementation in company management has become increasingly prominent. In the current economic environment full of complexity and uncertainty, companies should formulate reasonable and effective financial strategies and actively put them into practice to help companies resolve risks and realize value. This paper studies the formulation and implementation of corporate financial strategy based on two dimensions of life cycle theory and value chain theory.

2. Financial Strategy Formulation and Implementation

2.1. Formulation and Implementation of Financial Strategy Based on Life Cycle Theory

In the financial strategy formulation and implementation part, we will explain the analysis based on the life cycle and the value chain.

2.1.1. Formulation and Implementation of Company Financing Strategy

The company’s fund-raising strategy refers to the determination and adjustment of fund-raising scale, fund-raising methods, fund-raising channels, fund-raising structure, etc. on the basis of a full understanding of the existing fund market, in accordance with the company’s life cycle, company’s financial status and market funding needs, to ensure the company’s overall strategic goals To achieve this, companies generally adopt two forms of financing: issuing stocks and liabilities, and will choose the most suitable financing method after weighing the financing costs and financing risks.

2.1.2. Company Investment Strategy Formulation and Implementation

The company's investment strategy refers to the effective selection of investment projects under the premise of given capital constraints to maximize investment benefits.

In the lead-in period, the keynote of the overall development strategy of the enterprise is through the research and development of new products, successfully launching competitive products to the market in order to seize a certain market share and lay the market foundation for further development in the future.

In the growth period of the enterprise, an important financial task is to analyze the speed of market development and compare it with the original plan. In the growth period, the company should adopt an integrated investment strategy.

In the mature period of the enterprise, the product market share began to stabilize. In the mature period, the company should adopt a diversified investment strategy.

In the corporate recession period, the production capacity of enterprise products is surplus, and the competition is becoming increasingly fierce. During the recession, the company should adopt a strategy of reducing and transferring investment. Companies may also consider implementing mergers and acquisitions or exit strategies during periods of recession.

2.1.3. Formulation and Implementation of Company Income Distribution Strategy

The company's income distribution strategy refers to the method that an enterprise adopts to distribute income, which can not only meet the company's development needs, but also enable shareholders to distribute satisfactory dividends and increase shareholder stability. Income distribution is the distribution of corporate after-tax profits between corporate retention and investors. It is an important part of corporate financial work. The distribution and the amount of distribution have varying degrees of impact on the company's development and determine the company's future financing and development.

(1) Factors affecting the formulation of the company's income distribution strategy

The company must consider its influencing factors when formulating its income distribution strategy. The main factors affecting its formulation and implementation include the following: First, legal factors. Second, corporate factors. third, the shareholder factor. Therefore, when an enterprise formulates an income distribution strategy, it must consider factors such as shareholders' preference for dividend income and capital gains, as well as the enterprise's development strategy.

(2) Formulation and implementation of the company's income distribution strategy at each stage of the life cycle

During the introduction period, enterprises need a lot of funds for market development and product research and development, are weak against the risks of changes in the external environment, and are highly dependent on the external environment. During this period, the company's income was low or even loss, and it was not stable enough. Insufficient funds, poor financing channels, and retained earnings are the only source of funds for many companies. For the sake of stability, enterprises need to carry out a lot of accumulation in order to replenish capital, maintain survival, and then develop. Therefore, during the introduction period, companies should adopt a non-distribution or under-distribution strategy of income distribution, which is also conducive to increasing the proportion of corporate equity funds and providing a solid foundation for companies to further borrow funds.

In the growth period, although the level of corporate income has improved, the cash flow is unstable, and there are more investment opportunities, and a large amount of capital is required. At this stage, the company's ability to raise funds is not very strong. Therefore, companies should not adopt a policy of paying large amounts of cash dividends, but should adopt a policy of high proportion retention and low dividend payment, that is, a low-income distribution strategy. The payment method should also be dominated by stock dividends.

In the mature period, the company has sufficient cash flow and strong fund-raising ability. It can raise funds needed for business operations at any time. The capital accumulation scale is large, has strong dividend payment capabilities and investors have higher expectations of income. Therefore, enterprises at this stage are suitable for stability Growth revenue distribution strategy. That is, the company keeps the dividend per share issued at a certain level every year and remains unchanged for a period of time. Only when the company believes that the future increase in earnings is sufficient to enable it to maintain the dividend to a higher level, the company only then will the annual dividend payout per share be increased and maintain stability at a new level. Using this distribution strategy, the company must first establish a target growth rate of dividend payment, such as the annual dividend payment growth rate, and then determine the annual dividend payment amount based on this target.

In the corporate recession period, after a company enters a recession, it usually does not want to expand the scale of investment, and depreciation will no longer be used to replace fixed assets. The company's free cash flow may exceed the disclosed profit, and a large amount of idle funds will appear. Therefore, companies can pay investors higher profits during the recession, that is, adopt a high-yield distribution strategy. This kind of return is not only a compensation for the investment opportunities of existing investors, but also a compensation for their "high risk-low return" in the start-up and growth stages. Of course, high returns should be limited by not damaging the investment needed for the future development of the company.

2.2. Formulation and Implementation of Financial Strategy Based on Value Chain Theory

2.2.1. Definition of Financial Strategy Concept Based on Value Chain Theory

Financial strategy based on value chain theory is based on value chain theory and financial management theory, with the goal of realizing customer value, based on core competitiveness, focusing on the value management of value chain companies, and requiring companies to rely on information chain networks and value The chain network cooperates with upstream and downstream to fully optimize the resource allocation of the entire value chain.

2.2.2. Financial Strategy Formulation Principles Based On Value Chain Theory

(1) The principle of customer value orientation. In the modern value chain approach, customers occupy an important position. Managers must consider the needs and priorities of target customers.

(2) The principle of mutual benefit and win-win results. The value creation process is covered in the value chain. The value chain is an organic system that benefits from mutual incentives and support from competitors and upstream and downstream companies.

(3) The principle of integration of internal and external value chains. The value chain of each company should be integrated to form a unified and coordinated value chain system.

2.2.3. The Main Content of Financial Strategy Based on Value Chain Theory

Given that the goals of the value chain-based corporate financial strategy affect the entire value chain, and the core enterprise is not the only target member, the value chain-based financial strategy not only needs to consider the coordination of the relationship between the company groups in the value chain, but also the value chain What stage is the development in the life cycle, as well as the promotion of each node company's own internal value chain and the optimization and coordination of its and external value chain. Therefore, from the perspective of financial strategy, according to the type of value chain, it can be divided into two types: internal value chain financial strategy and external value chain financial strategy.

3. Conclusion

Based on our discussion above, we can learn that the formulation and implementation of strategies based on the value chain and the life cycle are different. Enterprises should formulate their own strategies from the macro environment and the internal environment according to their own life cycle and self-generated strategy.

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