International Business & Economics Studies
ISSN 2640-9852 (Print) ISSN 2640-9860 (Online)
Vol. 7, No. 2, 2025
www.scholink.org/ojs/index.php/ibes

Original Paper

The Impact of Business Model Innovation in the Beauty Industry on Financial Pressure

Weiwei Cui[1]

[1] Lanzhou University of Technology, Lanzhou, Gansu, China

Received: March 21, 2025 Accepted: April 21, 2025 Online Published: May 06, 2025

doi:10.22158/ibes.v7n2p222 URL: http://dx.doi.org/10.22158/ibes.v7n2p222

Abstract

The Chinese beauty market is booming under the impetus of consumption upgrade and digital technology, but fierce market competition forces enterprises to seek differentiated development paths. Business model innovation brings opportunities for beauty enterprises to break through homogeneous competition and achieve sustainable development. Business model innovation is essentially a process of reconstructing the enterprise value chain. In the early stage of innovation, enterprises need to invest a large amount of funds in technological research and development, channel construction, market promotion and other links. However, the benefits of innovation need to go through a market verification period before they can be gradually released. The mismatch of the time period between investment and returns has become a key cause of financial pressure. In the short term, enterprises may encounter problems such as tight cash flow and declining profit margins in the early stage of innovation, intensifying financial pressure. In the long term, successful business model innovation alleviates the pressure on enterprises by enhancing market competitiveness and the efficiency of resource allocation.

As one of the leading enterprises in China's domestic beauty industry, Peraera has successfully achieved enterprise transformation and upgrading by keenly seizing market opportunities and implementing business model innovation, while enhancing the core competitiveness of its brand. This article takes Peraera as a research case to explore the impact of business model innovation in beauty enterprises on the financial pressure of enterprises, which can provide reference for the financial pressure management of business model innovation in other similar enterprises.

Keywords

Business Model Innovation, Financial Pressure

1. Introduction

1.1 Theoretical Basis

The business model mainly describes the business logic of how an enterprise creates value, delivers value and captures value. From the perspective of theoretical development, Amit and Zott (2001) were the first to construct the theoretical framework of the business model from the perspective of systems theory, emphasizing that the business model is a collaborative activity system oriented towards value creation, composed of the core of the enterprise and its stakeholders, including three basic dimensions: content, structure and governance (Amit & Zott, 2011). Johnson et al. (2007) proposed a more operational definition from the perspective of operation management, arguing that a business model is an operational system that achieves value creation and transmission through the organic integration of an enterprise's value proposition, core resources, profit formula, and key business processes (Johnson, Nordström, & Lagerstrm, 2007)

Financial pressure, as a topic in enterprise financial research, is constantly being studied and enriched. Wang Hong et al. (2019) proposed from the perspective of systems theory that financial pressure is the result of the combined action of internal and external environmental factors of an enterprise on the financial level, emphasizing the transmission mechanism of pressure formation (Wang, Liao, & Liu, 2001). Wu Guoping and Zhu Jun (2009), based on the theory of behavioral economics, defined financial stress as the behavioral oppression formed on enterprises and used the fraud triangle theory to demonstrate the causal relationship between financial stress and financial fraud behavior (Wu & Zhu, 2009).

Two viewpoints have emerged regarding the relationship between business model innovation and enterprise financial pressure. Firstly, business model innovation helps to enhance enterprise efficiency, improve enterprise performance and relieve financial pressure. Zhang Shangmin (2023) found through empirical research on start-ups that both novel innovations that achieve differentiated competition through product and service innovation and efficiency-oriented innovations that enhance operational efficiency through process optimization can strengthen enterprises' risk tolerance in complex environments (Zhang, 2003). Lai Hongbo and Le Yang (2023), based on organizational learning theory, revealed the mechanism by which enterprises improve performance and alleviate financial pressure through organizational change and the enhancement of digital technology capabilities (Lai & Le, 2003). The theoretical model of "Digital Technology - Business Model Innovation - Enterprise Performance" constructed by Zhang Sheng and Yang Qian (2020) further indicates that business model innovation plays a key mediating role in the process of digital technology empowering enterprises to increase revenue and improve efficiency (Zhang & Yang, 2001). In contrast, the skeptical view points out that the alleviating effect of business model innovation on financial pressure may have limitations. Xiong Manchen and Cao Xuechen (2023) 's research on the manufacturing industry indicates that the effect of business model innovation has a distinct lag feature, and its financial pressure relief effect often gradually emerges in the later stage of transformation (Xiong, Cao, & Song, 2003). Li and Liu (2021)

found through subclassification of innovation types that novel, breakthrough and proactive business model innovations are difficult to produce financial pressure relief effects in the short term. Their research provides new evidence for understanding the time lag of innovation effects (Li & Liu, 2021).

Business model innovation, as a continuous activity in the enterprise value chain, often features a time lag between input and output. From the initial investment in innovation to the realization of final returns, enterprises need to go through multiple stages such as resource input, risk assumption, market validation, and revenue realization. Essentially, it is a dynamic game process of the mismatch between the innovation investment period and the revenue realization period.

In the early stage of innovation, enterprises often have to bear high risks of resource input, including R&D expenditures, marketing promotion costs, and channel construction investments. These capital inputs have rigid characteristics and are difficult to be converted into cash flow returns in the short term, which can easily lead to financial pressure such as cash flow tension and profit margin decline. The main sources of short-term financial pressure are market uncertainty risks, technology failure risks, and intensified competition risks. The combined effect of capital accumulation and revenue lag constitutes the internal logic of the transmission of short-term financial pressure in business model innovation.

As the innovation results are applied to the market and consumer recognition increases, enterprises gradually realize revenue realization, forming long-term competitive advantages, which are manifested in increased operating income, improved operational efficiency, and sufficient cash flow, etc. This reflects the dynamic balance mechanism from the intensification of financial pressure to its alleviation. The initial high-intensity investment is transformed into a continuous revenue stream through market validation and resource optimization. Therefore, the core of the impact of business model innovation on financial pressure lies in how enterprises can achieve strategic matching between innovation investment and revenue realization periods through effective resource allocation and risk management, ultimately achieving the effective release of financial pressure and the creation of long-term value.

1.2 Short-term Stress Intensification: Dynamic Imbalance between Innovation Input and Cash Flow

The business model innovation of beauty enterprises faces challenges in terms of capital and technological investment, mainly reflected in the following aspects: Digital transformation requires enterprises to invest in complete IT infrastructure construction and the introduction of professional talents, leading to a rigid increase in operating costs; The direct-to-consumer (D2C) model, although it has increased the average gross profit margin of the beauty industry by 3 to 5 percentage points by cutting the profit-sharing of middle channels, requires enterprises to invest a large amount of funds in developing and maintaining their own e-commerce platforms, which will reduce the operating cash flow of enterprises and increase cost and expense expenditures, intensifying the financial pressure on enterprises; The cooperation with key opinion leaders (KOLs) for content marketing and other precise marketing strategies increases the sales expenses of enterprises. In addition, the return rate of the D2C channel is as high as 15%, while that of the traditional channel is only 8%, increasing operational risks; The high-endization of product lines requires more R&D investment, and the market acceptance of

high-end products is uncertain, which may lead to difficulties in product sales and inventory accumulation. The increase in R&D investment and the uncertainty of market demand jointly constitute the financial pressure of the high-end product strategy; The integration of all channels requires the integration of online and offline systems and resources, with high coordination costs and system construction expenses in the initial stage, which will also bring financial pressure to enterprises.

1.3 Long-term Stress Relief: Efficiency Improvement and Structural Optimization

The long-term relief of financial pressure brought about by business model innovation essentially lies in the efficiency improvement driven by technology and the optimization of the value chain structure, thus establishing a virtuous cycle of "input - return". The core logic lies in that innovation activities reshape the core competitiveness of enterprises and achieve the synergy effect of cost savings, revenue growth and risk diversification. This article will analyze from three aspects: the direct sales model and the reconstruction of the value chain, the high-end product strategy and the transformation of R&D premium, and the integration of all channels and the monetization of data assets.

(1) Direct selling model and Value chain reconstruction

The direct sales model reduces supply chain levels through de-intermediation, lowers the compression of profit margins by channel commission sharing, enhances inventory turnover efficiency, prolongs the payment cycle of accounts payable, and improves the cash flow situation of enterprises. By directly reaching consumers, the cost of intermediate links has been reduced and operational efficiency has been improved. Through precise marketing and customer data analysis, customer stickiness and repurchase rate can be enhanced, further increasing sales revenue and cash flow, and alleviating the financial pressure on enterprises.

(2) The transformation of high-end product strategy and R&D premium

The high-end product strategy weakens consumers' price sensitivity through differentiation and enhances the gross profit margin of product sales. High-end product lines can attract high-end consumer groups and achieve higher profit margins through brand premium and product innovation. The technological barriers and product differentiation formed by R&D investment effectively enhance market competitiveness and reduce the pressure of price competition. The successful launch and market application of high-end products can enhance the profitability of enterprises and form long-term competitive advantages through continuous product iteration and innovation.

(3) Omni-channel integration and data asset monetization

Omni-channel integration enhances customer experience and operational efficiency by integrating online and offline systems and resources. The omni-channel strategy not only expands market coverage but also achieves precise marketing and personalized services through the accumulation and monetization of data assets. The monetization of data assets can bring new sources of income to enterprises, and at the same time, through data-driven decision optimization, reduce operating costs and risks. The integration of all channels can also enhance inventory management and logistics efficiency and alleviate financial pressure through the collaborative optimization of the supply chain.

2. Suggestions

2.1 Suggestions for Financial Pressure Control in Business Model Innovation of Beauty Enterprises

2.1.1 Establish a Threshold Management Mechanism for Innovation Input

To maintain the dynamic balance between business model innovation and financial pressure, beauty enterprises need to establish a threshold management mechanism based on the dynamic capability theory. The core of this mechanism lies in scientifically defining the critical value of business model innovation investment to achieve the co-evolution of technological breakthroughs and financial security. The logic of threshold setting stems from the nonlinear characteristics of innovation activities. When the intensity of innovation input exceeds the carrying capacity of enterprise resources, the diminishing marginal return effect leads to the innovation return being lower than the cost of capital.

The setting of the threshold should be determined by monitoring the risk of technological substitution and the speed of market response to determine the optimal range of innovation input, so that the allocation of resources can support innovation output without exceeding the boundary of the organization's capacity to bear. During this process, the principle of marginal benefit equilibrium provides a microeconomic basis for threshold management. When the marginal revenue and marginal cost of innovation input reach the equilibrium point, the resource allocation efficiency of the enterprise reaches the Pareto optimal state. If the equilibrium point is broken through, it means that the innovation activities enter the financial vulnerability range. The input scale needs to be recalibrated through the threshold constraint mechanism. This calibration is not a static numerical control but a dynamic strategic adjustment process. For instance, when the risk index of technological substitution rises significantly or the market response speed lags behind the industry average, enterprises need to adjust the threshold of R&D intensity in a coordinated manner and balance short-term financial security and long-term innovation reserve demands through a flexible budget mechanism.

The essence of threshold setting is to establish a scientific decision-making boundary between innovation-driven and controllable financial pressure through the dynamic coupling of strategic flexibility and financial rigidity. On the one hand, enterprises need to retain a moderate strategic flexibility to deal with market uncertainties and allow for a moderate relaxation of the investment threshold during the innovation investment window period. On the other hand, it is necessary to prevent excessive allocation of resources through financial rigid constraints, such as the coverage ratio of operating cash flow

2.1.2 Optimize the Operational Efficiency of the Enterprise

Optimizing the operational efficiency of enterprises is of great significance for the financial pressure control of business model innovation in beauty enterprises. According to the resource orchestration theory, the essence of operational efficiency is the dynamic optimization ability of resource combination, which directly affects the financial pressure of enterprises by reconstructing the cost structure of the value chain. When business model innovation is accompanied by technological iteration and market expansion, a rigid operation system is prone to causing loss of control over

marginal costs. The typical manifestations are the depletion of cash flow due to inventory overstock or the increase in expense ratio caused by channel redundancy, which intensifies the financial pressure on enterprises. The way to optimize operational efficiency is through agile transformation, converting fixed costs into an elastic cost structure. For instance, the construction of an intelligent supply chain not only shortens the demand response cycle but also reduces working capital through the improvement of inventory turnover efficiency, enabling enterprises to support business model innovation investment without increasing financial leverage, while alleviating financial pressure. Efficiency optimization brings more capital investment to business model innovation by reducing resource consumption per unit of output.

Optimizing operational efficiency can be approached from the following three aspects. Firstly, it is necessary to change the supply chain system. The rigid characteristics of the traditional linear supply chain are difficult to adapt to the fast-moving consumer goods nature of beauty products. By integrating consumer insights, production capacity planning and logistics through a data middle platform, a dynamic production arrangement and precise distribution oriented by demand can be formed. The improvement in the accuracy of demand forecasting directly translates into a reduction in the risk of inventory impairment, while the layout of distributed warehousing networks compresses fulfillment costs by shortening the logistics radius. Secondly, it is necessary to transform the channel arrangement of beauty enterprises. The deep integration of online and offline is not simply the superposition of channels, but rather a reconstruction based on user demands. Online channels focus on traffic conversion and data accumulation, while offline scenarios focus on experience value-added and service extension. By building virtual stores through digital technology, enterprises can break through the limitations of physical space and achieve low-cost extension of service capabilities. It not only increases the operating income of enterprises, but also reduces the amortization rate of costs per store and alleviates financial pressure. In addition, the efficiency of asset allocation also affects the operational efficiency of enterprises. Enterprises can focus their assets on high value-added links such as research and development and brand building, while outsourcing standardized production links. This resource concentration strategy not only reduces costs but also enhances asset turnover efficiency through specialized division of labor. By constructing the supply chain resilience index and channel health assessment model, enterprises can proactively identify vulnerable nodes in the value chain. For instance, when the inventory turnover rate of a certain regional channel is detected to deviate from the benchmark value, the dynamic price adjustment mechanism and cross-regional transfer plan are automatically triggered, converting the potential risk of overstocking into market opportunities.

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