



On Budget Management Strategy for IT Enterprises in Economic Crisis

----- A Case Study of Sohu.com

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Abstract

On the second half of the year 2008, a serious economic crisis caused by US sub-prime mortgage crisis covers the world financial market. This crisis strikes heavily on the financial system and impacts on other industry. The crisis advances higher requirements for governments' macro adjustment and policy supervision. Besides, it requires more for enterprises' financial budget and management. A series problems turn into demanding challenges for enterprises budgeting and controlling under the crisis. By taking the famous Internet enterprise Sohu.com as an example, this paper probes into the financial budget management and controlling strategy of IT enterprises in economic crisis.

Keywords: Financial budget, Economic crisis, IT industry, Safety, Competitiveness

IT industry has high market dependence and capital dependence. Facing economic crisis, how to decrease costs, control expenses, increase profits, and get more cash flows by financial budget management and control is vital for whether an enterprise survives the financial crisis. Some domestic IT enterprises (such as the video-on-demand websites, Youku, and Tudou) are confronted with more difficulties in operation caused by the decline of ads income. The author advances suggestions for budget management in crisis by studying this issue, with the hope of helping IT enterprises surviving the crisis.

1. The world economic crisis' impacts on IT industry

Since the world financial crisis pervades the real economy in September, it has already exerted significant impacts on IT industry. International Data Company (IDC) predicts on Nov. 12th that in 2009 world IT expenditure will rise by 2.6%, lower than previously predicted 5.9%, and the number in America is 0.9%, lower than previously predicted 4.2%. IDC points out that the IT expenditure will realize a rise of 6.6%, achieving a "complete recovery". Even though, IT industry will suffer a 300 billion US dollars loss due to the decrease of relevant expenditure in the future four years. World famous IT enterprises, such as Google and Microsoft, express their optimistic attitudes toward the annual profits in the third and fourth seasonal reports.

The impacts of world economic crisis on IT industry focus on:

- (1) The market demand of IT industry decreases, mainly the decrease of software and system update and purchases.
- (2) The Internet ads income reduces heavily, which directly threatens the main income of Internet enterprises.
- (3) The use frequency of IT value-added services by present users will decrease.

The three points are the main impacts of present economic crisis on IT industry. As for Sohu.com, in the second half of the year 2008, return of enterprises declines than that of 2007. It is predicted that the profit increment ratio is 2.5%, lower than the average of the industry. Therein, the return from Internet value-added services decreases by 24.2% and the return from Internet space services decreases by 11%. The return from Internet ads, as the main income, also decreases by 19%. Not only Sohu.com, but lots of IT enterprises in China face a severe condition, such as the well-known video-on-demand websites Youku.com and Tudou.com. The decrease of income from ads leads to lower

profits. Some IT enterprises even can not pay rents for their servers and routes.

To sum up, the financial crisis exerts great impacts on world IT industry, which makes many IT enterprises face serious problems of funds shortage and return decrease.

2. The budget control measures adopted by Sohu.com in dealing with the financial crisis

To deal with the economic crisis, Sohu.com, as an important component of China Internet industry, firstly adopts some effective budget control measures. Xiaoping Zhang, an analyst in Sohu.com, said in a special financial budget meeting in Oct. 2008: "If what in your report is only the expenditure but not the return, you will get less expenditure."

Mr. Zhang said the natural attribute of IT budget was special because the information technology permeated into and served the electric commerce. He also mentioned a popular statistical number: About 80% of IT expenditure is used for commercial operation.

Apparently, if all the contribution of IT is from the 20% investment, we can conclude that the value generated by IT is poor. Mr. Zhang suggested that we should consider the enterprise's financial responsibility in perspective of return, namely to evaluate the value by the consumed resources. In other words, we should consider the commercial return from resources consumed by IT.

This equation can be adjusted from two aspects. The first is to increase the commercial value, namely the numerator. The second is to decrease the denominator with fixed numerator, namely reducing expenditure.

(1) The management in the "denominator" field

The financial branch of Sohu.com advances some tactics to reduce the denominator. The first task is to know the position of budget, compared with equivalent materials. Usually, IT budget is evaluated by the percentage of return. If a branch does not belong the central field of the industry, it is necessary to establish where the expenditure strays away from the normal level and analyze why the expenditure is high. If the high expenditure is determined by the enterprise's special commercial needs or goals, it is necessary to associate the high expenditure with the commercial needs. We can also reduce expenditure from these aspects as follow.

Reduce hasty "start-stop" projects. This project usually operates in several months and then disappears. It is a waste of materials. We can reduce 80% of expenditure in the first year by executing the service software. The main measures mainly include:

Check the software license's purchase mistakes and group discount.

Think about the server and storage's virtual technology.

Investigate and execute the net voice over IP (VoIP).

Set up a standardized operation environment (SOE).

Develop the offshore acquisition operation and take it as a long-term strategy for saving expenses.

(2) Improve the "numerator" aspect

According to Xiaoping Zhang's words, to increase the number of numerator, or the value generated by IT, means to increase the output of IT. In discussing the largest bottleneck of increasing the IT output, the audience puts forward these aspects: applicant software development, CIO, commercial needs, expenditure support, and consumption. Mr. Zhang said it was not always the truth.

In Mr. Zhang's opinion, the greatest barrier is the test, namely the specific testing process. He also mentioned an urgent strategy in Sohu.com that "if the efficiency of testing could be improved by 100%, the output will rise by 400%".

3. The budget management strategy for IT enterprises in economic crisis

In bad economic time, enterprises usually reduce the costs for internal information, namely the IT budget. Among all supportive operations, IT budget accounts for a large part, and even the main part.

Therefore, it is necessary to consider how to reduce enterprises' costs for IT. From experiences, we can consider from these aspects as follow.

3.1 Save costs

(1) Reduce large-sized projects and apply short-term projects

Operations are the base for IT, what also reflect the value of IT. All IT budget serves operations. Therefore, operations usually cover most of IT budget. After all, the software package is expensive. Its implementation is time-consuming. Usually, a middle-sized project will spend one year before its application.

Therefore, to reduce large-sized projects and apply short-term projects can actualize the value of operations as soon as possible at lower costs.

(2) Reduce new projects and add optimizing projects

New projects cost a lot. From the need, the development, to the system maintenance, enterprises must purchase new software and hardware. In contrast, the optimizing projects based on former IT system cost less: less human resources, less costs for IT software and hardware. Besides, the effect will be soon to come.

(3) Choose the right software platform but not the most expensive platform

No matter what an enterprise's type is or what an enterprise's size is, never choose the expensive software and hardware. These expensive software and hardware will cost more in later, such as maintenance, upgrade, and ordered development. IT is changeable, so does enterprises' operations. Therefore, to select software and hardware should take the cost as the first. For example, if Mysql is OK, do not purchase SQL SERVER or Oracle. If tomcat is OK, never use weblogic or websphere. If certain software is for free and it is useful, then use it.

The author has ever known that some large enterprises finally buy specialized and expensive software and hardware due to the temptation of some consulting companies. As a result, these enterprises will cost more and have to follow some IT giants. If you do not upgrade, I will stop the old edition.

3.2 Strengthen internal management and operation optimization and improve the profitability

The IT branch of enterprises is specialized. As the IT system turns into a habit of office work, amounts of corporate management depends on the IT system. Therefore, whether the IT branch's internal process is standard and whether the system is perfect will be known soon.

So, it is necessary to simplified the process and improve employees' qualities and techniques.

To strengthen the internal management means to improve employees' enthusiasm for work and work efficiency. For one project, try to use fewer employees but get same profits. In an economic crisis, it is more important to strengthen the internal management and improve employees' work enthusiasm and work efficiency.

To optimize the operation is also a way for an enterprise improving the competitiveness. To dig out the profitable operation and get rid of the operation that could not offer a cash flow for the enterprise in case of the later occupying capitals but no profits.

3.3 The budget should be adjusted based on present economic situation

In economic crisis, the macro economic situation may change in a short time. An enterprise's financial budget must keep up with the change of macro economic situation, preparing for an instant change. In making up plans, an enterprise should take possible changes of economic conditions into consideration, preparing for the future. Facing the financial crisis, an enterprise must guarantee the cash flow in case of its broken exerting direct impacts on the enterprise's operation. Meanwhile, if an enterprise has foreign business, it should pay attention to the exchange and adjust its prices timely, avoiding potential losses caused by exchange.

3.4 Strengthen guaranteed cash flows in budget management

The cash flow is similar to the blood of an enterprise. The normal operation of an enterprise must depend on the cash flow. An IT enterprise operates a cash flow with its hardware supplier and service users all the time. In a financial crisis, the upstream supplier and the downstream user may fail to pay in time, which may causes problems in the cash flow of an enterprise. Therefore, in economic crisis, an enterprise should especially guarantee the cash flow in budget management, predicting the possibilities of bad debts, making complete preparations for possible bad debts, and avoiding potential problems in the cash flow.

The upstream enterprise should make best use of commercial credit means, such as account payable and bills, decreasing the financial costs and capital costs, and improving the profitability.

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