

Global Financial Crisis – 2008 and Its Impact on Selling & Distribution Expenses of Indian IT Sector

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Abstract: When economic times get tough, it's necessary for small and medium-size businesses to reevaluate the budget and in some cases tighten the proverbial belt. Most importantly it means thinking strategically about how best to spend, and save, in a recession. Your information technology department is a good place to start. Doing this means taking a comprehensive view of organizational expenses and prioritizing. Understanding which technology investments help to increase productivity and better serve clients is the first step. Continuing to fund these strategic technologies during an economic downturn is very important. With a recession technology plan in place, your organization can survive, and even thrive, within this turbulent economy. In this study the Selling & Distribution Expenses of the most popular 10 Indian IT companies are analyzed by applying moving average method in order to know how they managed to grow even after recession.

Keywords: Recession, Selling Expenses, Distribution Expenses, IT Companies, Indian Economy.

I. INTRODUCTION

In the United States, recession is usually defined as two consecutive quarters of decline in the GDP. This definition is provided by the National Bureau of Economic Research (NBER), it also includes several economic indicators, including employment, real income, wholesale and retail sales, Industrial production and other factors, and defines a recession as the period of time between the "Peak" and the Trough". While the business cycle is defined and measured primarily in terms of national GDP, progress through its phases is felt most keenly by individuals and businesses in terms of changes in:

- Employment or unemployment.
- Wholesale sales and retail sales.
- New building loans and new building starts, or building closures and property foreclosures.
- Business start ups and business growth, or business failures.

Although it was spread around that Asian countries like India, China, Brazil, Sri Lanka etc. were least affected by the recession, but still as we live in the world of globalization, Industrialization, Privatisation, Liberalization. We have to accept and face all the positives along with the negative aspects of events and occurrence worldwide. India too can't survive solely without any impact on its economy if some incident happened at global level and hence influenced by the global financial crisis with a minimal effect. Therefore to

understand the whole scenario around recession we must have knowledge about the types and shapes of recession in order to analyse the actual situation that is happening around our economy. Recession shapes are used by economists to describe different types of recessions. There is no specific academic theory or classification system for recession shapes; rather the terminology is used as informal shorthand to characterize recessions and their recoveries. The most commonly used terms are V-shaped, U-shaped, W-shaped, and L-shaped recessions. The shapes take their names from the approximate shape economic data make in graphs during recessions.

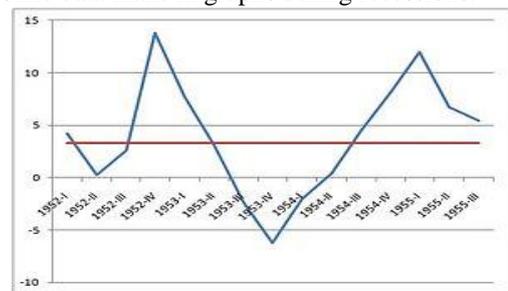


Fig 1. V- Shaped Recession (www.wikipedia.org)

In a V-shaped recession, the economy suffers a sharp but brief period of economic decline with a clearly defined trough, followed by a strong recovery. V-shapes are the normal shape for recession: "There is a strong historical "snap back" relationship between the strength of economic recovery and the severity of the preceding recession. Thus, recessions and their recoveries have a tendency to trace out a "V" shape."

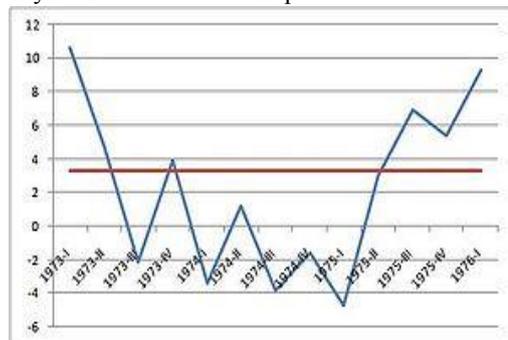


Fig 2.U-Shaped Recession (-www.wikipedia.org)

A U-shaped recession is longer than a V-shaped recession, and has a less-clearly defined trough. GDP may shrink for several quarters, and only slowly return to trend growth. Simon Johnson, former chief economist for the International Monetary Fund, says a U-shaped recession is like a bathtub: "You go in. You stay in. The sides are slippery. You know, maybe there's some bumpy stuff in the bottom, but you don't come out of the bathtub for a long time."

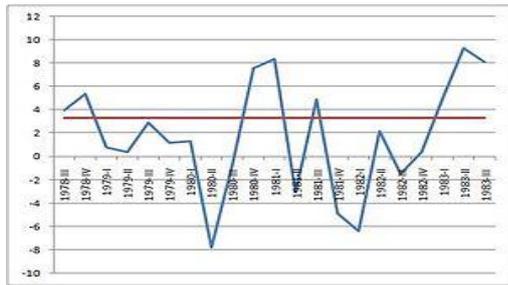


Fig 3. W-Shaped Recession (www.wikipedia.org)

In a W-shaped recession, (also known as a **double-dip recession**), the economy falls into recession, recovers with a short period of growth, then falls back into recession before finally recovering, giving a "down up down up" pattern resembling the letter W.

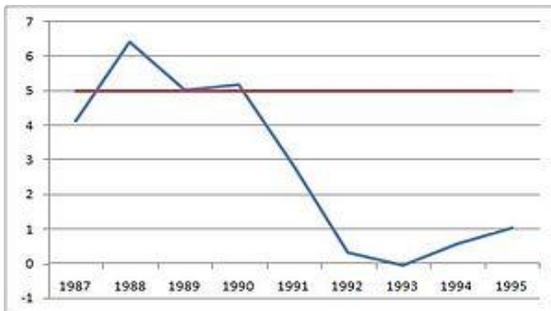


Fig 4. L-Shaped Recession (www.wikipedia.org)

An L-shaped recession occurs when an economy has a severe recession and does not return to trend line growth for many years, if ever. The steep drop, followed by a flat line makes the shape of an L. This is the most severe of the different shapes of recession. Alternative terms for long periods of underperformance include "depression" and lost decade; compare also "malaise".

III. MEANING OF SELLING AND DISTRIBUTION EXPENSES

Selling expenses are part of the operating expenses (along with administrative expenses). Selling expenses include sales commissions, advertising, promotional materials distributed, rent of the sales showroom, rent of the sales offices, salaries and fringe benefits of sales personnel, utilities and telephone usage in the sales department, etc. Under the accrual basis of accounting, selling expenses appear on the income statement in the period in which they occurred (not the period in which they were paid). Selling and Distribution Overhead: Selling overhead relates to the expenses incurred for promoting the marketing of the products, securing and executing the orders. Distribution overhead is the cost of delivery and despatch of finished products from the factory to warehouse and from warehouse to customers, and includes the cost of bringing returnable containers, if any, to the factory till they are ready for reuse. Examples are carriage and freight, depreciation of delivery vans, repairs and maintenance and insurance of delivery vans,

warehouse rent and expenses, transit insurance of finished goods. Selling and Distribution are therefore, two distinct functions, but in most of the organisations, they are grouped together as selling and distribution expenses for the purpose of accounting and control. Accounting of Selling and Distribution Overhead: Accounting of selling and distribution overhead start with the collection of expenses under clearly defined cost account numbers. These expenses are, thereafter, allocated and apportioned to various functions which may be grouped under the following headings:

- Advertisement and sales promotion
- Direct selling
- Transportation
- Warehousing and storage
- Credit and collection

Each of the above functions can be further divided into various territories, such as North, South, East, West, etc. and expenses can be allocated and apportioned to each of these territories for accounting and control. Some of the expenses such as sales commission, travelling expenses of the salesmen, shipping cost, direct selling expenses are identifiable and therefore, can be allocated directly to the function and territories. Other expenses can be apportioned on some suitable basis. Costs that a business incurs to market and distribute its products that can include such things as advertising, sales commissions and salaries, sales office expenses, and shipping charges. Selling expenses are a form of operating expense and are included on a business' income statement for the period in which they occurred under the accrual method of accounting.

III. LITERATURE REVIEW

Marjit (2009), explained that terms such as 'recession' and 'crisis' are blown out of proportion in the current environment. He mentioned that only industrial recession of some kind would not affect the overall growth prospects until the service sector does not shrink substantially. In addition he pointed out that excessive liquidity may generates bubbles in the economy and distort real rates of return which may damage efficient allocation of capital. And the informal sector of the economy must be considered which absorbs 90% of the total work force who nullify the actual recession impact in India. Taslim (2010), highlighted the facts that the global recession of 2009-09 has the devastating effect on the world trade. The value of merchandise exports, which had registered a healthy growth of over 15% in 2007 -08, fell down by a massive 23% in 2009 (WTO 2010). The top 30 exporting countries of the world suffered with a decline in their export ranging from 11% (Hong Kong) to 40% (Saudi Arabia). But Bangladesh's revenues declined only by 2% during 2009 (recession period), may be because of the cheap and inferior goods especially the apparels were exported. It is all because of the

competitiveness and innovative strength of the BanglaDeshi entrepreneurs along with the duty free access in all developed countries (except US) and the most importantly an abundant supply of cheap labour has made it stand in such tougher times. Sharma (2011), revealed that customers who shop more frequently are likely to witness higher fluctuations for luxury items then for regular items. It indicates that customers shopping for luxury items may be postponed in the times of recession but they continue to shop for regular items. Moreover it was also mentioned in the study that Hypermarkets and supermarkets observed a greater change in the shopping behaviour than the kirana stores visiting by the customers for purchasing the regular items. Chougule(2012), explored the fact that Indian Financial system was characterized by barriers to entry, control over financial assets, high transaction costs and restriction on movements of funds from one segment market to another but after the economic reforms were initiated in 1991, a revolutionary change in the IT (Information Technology) has changed the entire face of Indian Capital Market and furthermore there were no price time priority and hence this exchange of technology has both positive and negative direct affect on the Indian markets. Sakthivel(2012), mentioned that a recession is preceded by several quarters of slowing down , the economy and the stock markets are closely related to each other. The stock markets reflect optimism and cheerfulness of the economy. And Indian stock markets were also crashed due to a slowdown in the US economy. Furthermore he states that every economy has gone through periods of fast growth, slow growth, no growth at all and even negative growth sometimes. In the same manner US economy has been facing such negative period since few years back.

IV. RESEARCH METHODOLOGY

Therefore on the basis of above review of literature, my study will highlight the actual recession scenario. As the above studies says that India did very well during recession as it was not originated from here and basically its roots were outside India , which does not impose a huge negative overall affect on Indian IT industry by implementing the proactive business policies.

Objective of the study is to analyse the actual position of the Indian IT Sector objective of this study is; whether there was a growth or downfall in the Selling & Distribution of given 10 Indian IT companies after financial crisis, whether they have bear the same amount or less of overall expenses after the global financial crisis. The **Hypothesis** were set out for the study as-

H₀ (1): Indian IT industry was badly affected by Recession and the Indian IT companies have to spend a huge amount on selling & distribution of their product globally after Recession of 2008.

Secondary data was used under this study which was taken from an authenticated website named as Prowess

Database. The data was given for all IT and ITES companies in the same database but only 10 out of them are discussed and further analysed in this study. The data is analysed on the basis of two factors taken before and after the recession, i.e. total six years data are taken; form December 2006 to December 2011. The Recession happened in mid 2008 till mid 2009; therefore Selling & Distribution expenses of two years before the recession i.e. 2006 and 2007, and two years after recession Selling & Distribution expenses i.e. 2010 and 2011 are taken to analyse the scenario of pre, post and during recession. Here the data was taken from Ten major IT companies named as Genpact India Ltd., Zensar Technologies Ltd., TCS Ltd., Tech Mahindra Ltd., Patni Computer Systems Ltd., NIIT Technologies Ltd., L&T Infotech Ltd., Rolta India Ltd., Igate Global Solutions Ltd., HCL Technologies Ltd., were analysed by applying Moving Average Method in MS-Excel 2007.

The formula for calculating Moving Average is:-

$$MA = \frac{1}{N} \sum_{j=0}^N A_{t+j+1} , \text{ Where:}$$

- N is the number of prior periods to include in the moving average.
- A_j is the actual value at time j .

This method is used to calculate the results by taking average value of the variable over a specific number of preceding periods and it will provide information through a trend line about the simple average of all historic data. Here data was considered from the year 2006 to 2011, so data taken originally from the year 2005 (preceding year) so that it can calculate an average of 2005 & 2006 to show the average data in 2006 and further move with the same procedure till 2011.

V. DATA ANALYSIS

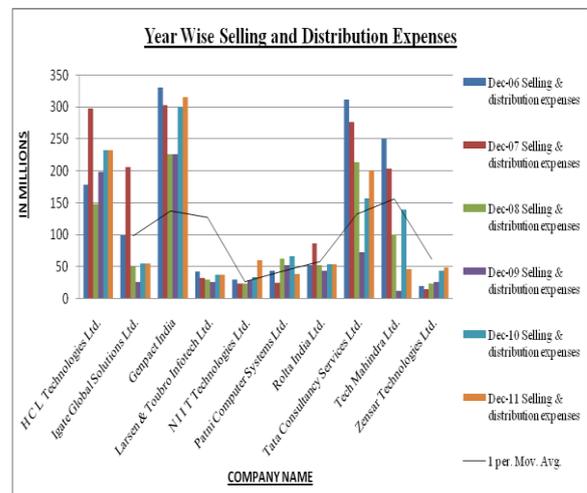


Fig - 1

After studying the whole data it can be analysed from Figure – 1 that HCL has to spend less during recession period if compared with the pre recession scenario i.e., during year 2006 – 07 but again after the financial crisis of 2008-09 it has to expend its S&D expenses in order to survive in the market. Igate G.S.Ltd. also faced the same position during pre – recession period, it has to spend more but during the post – recession period it need not to pay out more for the same. Genpact India has to pay out the highest amount on Selling & Distribution of its products during pre and post recession scenario but during recessionary period it has to spend less may be because of decrease in overall demand. L&T Infotech Ltd. has the overall least amount to be thrown away for S&D purpose, may be because of less share market share. NIIT Technologies is an emerging IT company with strong policies & new vision towards the market that's why it was able to cope up with global fall down and survive very well without spending much on S&D factor. In the same manner Patni Computer Systems Ltd. performed very well after recession period by decreasing its expenditure on S&D, though it has to pay out more during recession scenario. Similarly Rolta India Ltd. and Zensar Technologies Ltd. did almost same expenditure after recession period but both of them have to spend more money on their S& D of products in the market. On the other hand TCS Ltd. performed very good after the crisis period has moved on, its S&D expenditure got reduced year by year because of its regular updating of policies making though it has to spend more during pre – recession period. At last the Tech Mahindra Ltd., a strong competitor of IT Industry has also did overall excellent job in during, pre & post global downfall in the markets and survived strongly by spending rational amount on S&D accordingly.

VI. FINDINGS & CONCLUSION

2007 – 2011 more expenses but less in 2008 coz of less demand, h & low amnt After studying and analyzing the whole data it can be concluded that Indian IT Companies did very well before, after and during the recession scenario and endure with their best policies to reduce the global financial effect on them. Although it can be seen from the Figure – 1 that during the period of recession i.e., 2008-09 the expenditure on S&D, may be because of the reduction in overall global demand but they aware and took action quickly without any delay for their better survival in the market. Furthermore it was founded that during the year 2007 & 2011 all the companies have to spend more & there was a pattern in that spending by all the companies but all and all Genpact had the highest expenditure amount on S&D overall and Zensar had the least to spend for the same purpose might be because of least market share. Therefore it is very clear after entire analysis that India was least affected by the Global Financial Crisis as compared to other developed nation due to the effective Govt. policies during financial crisis.

Therefore the **Hypothesis** has been rejected which was considered that Indian IT industry was badly affected by Recession and the Indian IT players has to spend more on their S&D to survive in the market . Hence it was proven that Indian IT sector was not badly affected by recession at all and none of them has to spend extraordinarily, rather a minor effect was seen due to globalization of economies.

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Company Name	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
	Selling & distribution expenses					
H C L Technologies Ltd.	178.2	296.8	148.3	198.5	232.7	232.7
Igate Global Solutions Ltd.	99.2	205.8	50	25.8	54.6	54.6
Genpact India	330.4	302.1	225.8	225.8	300.3	315.4
Larsen & Toubro Infotech Ltd.	42.2	32.6	29.6	26.4	37.2	37.2
N I I T Technologies Ltd.	30.6	24.2	23.8	28.5	33.7	60.2
Patni Computer Systems Ltd.	44.5	25.4	63.3	53.2	66.4	38.6
Rolta India Ltd.	52.7	86.4	52.6	43.8	54.1	54.1
Tata Consultancy Services Ltd.	310.5	276.3	213.5	72.7	157.3	200.8
Tech Mahindra Ltd.	250	203	100	13	139	47
Zensar Technologies Ltd.	20.3	15.6	23.3	26.4	43.3	48.6

Table -1