

Financial Research of Internet Enterprises based on Harvard Analytical Framework: A Case Study of P Company

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Abstract: The Harvard analytical framework consists of four parts: strategic analysis, accounting analysis, financial analysis, and Prospect analysis. Compared with traditional analytical methods, Harvard analytical framework has great advantages. It is not only limited to traditional financial analysis but also predicts the future development of enterprises and plays a certain role in strategic decision-making. Because of this, Harvard analytical framework is widely used and trusted by enterprises. In 2013, all Internet companies experienced a cruel year. However, with the aggravation of traditional enterprises and the obvious trend of integration, Internet enterprises have been waiting for a bright future. Therefore, based on the financial situation, internal and external environmental factors and other considerations of P Information Technology Co., Ltd., from the perspective of the Harvard analytical framework, a comprehensive strategic analysis, accounting analysis, financial analysis, and prospect analysis will be carried out to analyze the company.

1. Introduction

Harvard Analytical Framework is to evaluate the company's strategic objectives and competitive strategies by analyzing its internal and external environment as well as the advantages and disadvantages of competition, to study the company's financial statements carefully, and then to predict the future development trend of the company, and to put forward corresponding improvement measures and relevant suggestions. The Harvard analytical framework consists of four parts: strategic analysis, financial analysis, accounting analysis, and Prospect analysis. Compared with traditional analytical methods, Harvard analytical framework has great advantages. Through the research of the Harvard analytical framework, the traditional management concept of enterprises can be changed and enhance their market competitive advantages.

This paper uses Harvard analytical framework to analyze P company's financial statements, points out its shortcomings in the development, and gives relevant suggestions. P Information Technology Co., Ltd., founded in 2014, mainly engaged in e-commerce business. After three years of development, P has established a business structure based on E-business acting as the core business, supported by the Internet + integrated marketing and tourism business, providing a one-stop solution and integrated service structure, and has perfected the chain of continuous operation and development of the company.

2. Strategic Analysis

2.1 The Purpose of Strategic Analysis

The objectives of strategic analysis include: firstly, to understand the current situation of the company's industry and find out its competitive advantages and disadvantages. By comparing with other competitors in the industry, this paper analyses the core competitiveness of the company, whether they can provide non-replicable products or services, and whether there is room for improvement. Secondly, put forward the corresponding adjustment strategy to help the company gain a competitive advantage. After understanding the competitive advantages and disadvantages of

the company, better business strategies can be put forward for the company, such as low-cost competition, product differentiation, market-oriented, close contact with suppliers and customers.

2.2 Analysis of External Environment

Porter's Five Forces Analysis Model is mainly used to analyze the current competitive environment of the industry. The recognition and evaluation of different combinations of these five competitive forces is the basis for enterprises to implement their future strategy. Using Porter's Five Forces Model, the following analysis can be made of P Company:

2.2.1 Threats from Potential Entrants

At present, the main potential entrants of e-commerce enterprises are threatened by software service enterprises and traditional production service enterprises. Software service enterprises have certain technological advantages compared with ordinary e-commerce enterprises. The correct development of systems and the correct guidance of business models can pose a threat to e-commerce enterprises. Software service enterprises have certain technological advantages compared with ordinary e-commerce enterprises. The correct development of systems and the correct guidance of business models can pose a threat to e-commerce enterprises. Compared with the traditional production and service enterprises, because of the low entry threshold of e-commerce enterprises, some enterprises have been able to enter the field of e-commerce by themselves. Therefore, e-commerce enterprises have a greater threat from potential entrants.

2.2.2 Competitiveness of the Industry

From the current situation of the industry, the competition of Internet enterprises is in the shape of a pyramid. At the top of the tower are industry giants, such as Alibaba and Ctrip, which rely on the mastery of means of production and abundant social resources owned by enterprises. They control most of the profits and resources of the industry. Most e-commerce enterprises are at the bottom of the tower. They have a large number of enterprises and few market resources. Especially in a policy-oriented and national industrial transformation and upgrading environment, Internet e-commerce enterprises have entered a relatively rapid growth stage, so, at present, e-commerce enterprises are facing great competition pressure and risk of elimination.

Vendors' bargaining power: The suppliers of e-commerce enterprises are mainly software enterprises. Because e-commerce enterprises hold most of the means of production, and the software industry is also in fierce competition, there are many suppliers to choose, so the bargaining power of suppliers is relatively weak.

2.2.3 Threat of Alternative Products

From the perspective of the e-commerce industry, e-commerce enterprises have a strong ability of technological innovation, and even from a long-term perspective, the e-commerce industry plays an irreplaceable role in the competition of various industries, so the threat of alternative products is relatively small.

2.2.4 Bargaining Power of Product Buyer

In the Internet e-commerce industry, there are many enterprises, diversified forms of products and services, and products are updated and eliminated quickly. Therefore, from the perspective of the bargaining power of the buyer, the bargaining power of the buyer is strong.

2.3 Internal Environment Analysis

2.3.1 Rapid Development of Enterprise Economy

Since its establishment, the company's economic strength has been in a stage of rapid development. The total assets in 2015 were 9636287.52 ¥. Total assets rose to 13822997.1 ¥ in 2016, an increase of 44% over the previous year. Total assets in the first half of 2017 further expanded to 190,88378.5 ¥, an increase of 38% over the previous year. With the rapid growth of total assets, the

total amount of owner's rights and interests is also increasing year by year and breaks through 9689218 ¥ in the first half of 2017.

2.3.2 The Gradually Expanding Scale of the Enterprise

The company wholly acquired another Internet company in August 2016 and passed the resolution of changing the company type from a limited liability company to a joint-stock company through the temporary meeting of shareholders in September 2016. On October 11, 2016, the company agreed to establish a joint-stock company through the overall change of the limited liability company according to law.

2.3.3 Increased Corporate Debt

Corporate liabilities have increased year by year, reaching 9399154.98 ¥ in the first half of 2017, an increase of 61% over the same period, which is higher than the growth rate of total assets, affecting the healthy and sustainable development of enterprise funds.

2.3.4 Reduction of Net Profit of Enterprises

Since the establishment of the enterprise, the total operating income and assets have increased year after year, but in 2017, the net profit of the enterprise decreased by 27,1040 ¥, 16% compared with the same period.

3. Financial Analysis

3.1 Purpose of Financial Analysis

The purpose of financial analysis is to understand the company's overall asset management ability, profitability and development ability by calculating relevant indicators. The commonly used method is the ratio analysis method. Common financial ratios include solvency ratio, long-term solvency ratio, profitability ratio, cash flow ratio, and vitality ratio. By using the Harvard Analytical Framework, the potential problems of the company can be identified. Help companies find solutions to these problems, predict the company's future development trend, and thus can help companies operate better.

3.2 Solvency Analysis

Table 1. The solvency indicators of P Company from 2015 to 2017

Financial Index	2015	2016	2017
Liquidity Ratio (times)	1.65	2.49	2.12
Cash ratio %	15.4%	50.6%	162.8%
Cash flow ratio %	297.44%	37.07%	55.11%
Asset-liability ratio %	69.3%	47.3%	53.9%
Debt repayment guarantee ratio	406.85	3.26	2.29

3.2.1 Analysis of Short-term Liquidity

The current ratio shows an upward trend year by year, which shows that the company's ability to repay current liabilities and the guarantee of repayment of current liabilities are all getting stronger and stronger. The cash ratio shows an upward trend in general. The direct solvency of enterprises is rising, and the solvency of enterprises is gradually guaranteed. For P company, the cash flow ratio shows an upward trend, which reflects the increasing ability of net cash flow generated by the company's business activities to pay current liabilities from a dynamic point of view. But overall, the ratio is still low, reflecting the poor ability of net cash flow generated by current operating activities to pay current liabilities from a dynamic point of view.

3.2.2 Analysis of Long-term Solvency

As known, the asset-liability ratio is higher than that of other enterprises. This shows that the enterprise has a poor ability to repay debts, its long-term solvency is not ideal, it is not easy to get loans and borrow debts, and its financial risk is relatively high. The higher debt-servicing guarantee ratio reflects the weaker ability to repay debts within the enterprise.

3.3 Operating Capability Analysis

Table 2. P Company's operational capacity indicators for 2015-2017

Financial objectives	2015	2016	2017
Current assets turnover rate	2.14	1.14	1.02
Fixed assets turnover rate	48.30	30.36	16.25
Total asset turnover rate	2.49	1.09	0.96

The turnover rate of current assets reflects the speed of the turnover of current assets. The company shows a downward trend year by year, which indicates that the utilization efficiency of the current assets of the company is gradually decreasing. At the same time, the utilization rate of fixed assets and the management level are both decreasing, which may affect the profitability of the company. Total assets turnover rate decreases year by year, indicating that the efficiency of enterprises using their assets to operate has decreased, which will affect the profitability of the company. The company should take financial measures to improve the utilization rate of total assets by restructuring sales revenue or disposing of assets.

3.4 Analysis of Development Capability

Table 3. The financial indicators of P Company's development capacity for 2015-2017

Financial Index	2015	2016	2017
Sales growth rate	210.24%	-22.32%	161.74%
Asset growth rate	223.61%	47.80%	193.80%
Growth Rate of Equity Capital	701.61%	138.82%	156.78%
Profit growth rate	1488.70%	-21.54%	98.77%

P company's financial indicators in 2015 are good, but in 2016 there has been a significant decline, in which sales growth rate and profit growth rate are negative. Although it rose in 2017, it shows that the company's profitability is getting worse and worse, it has weakening growth, and development ability and its competitiveness are declining.

3.5 Profitability Analysis

Table 4. P Company's profitability indicators for 2015-2017

Financial Index	2015	2016	2017
Asset profit margin	57.73%	25.36%	17.15%
Gross Sales Interest Rate	52.58%	56.65%	-41.51%
The net interest rate on sales	18.92%	19.25%	13.09%
Net Asset Interest Rate	42.9%	18.92%	11.33%

From the above table, from 2015 to 2016, gross sales interest rate and net sales interest rate increased, that is, the proportion of operating costs in net sales revenue showed a decreasing trend, the company's ability to earn profits through sales increased. However, in 2017, the company's net profit has declined, and its ability to earn returns by expanding sales has declined.

4. Accounting Analysis

4.1 Purpose of Accounting Analysis

The purpose of accounting analysis is to evaluate the assets and profitability of a company by analyzing the quality of its assets and profitability and the corresponding accounting policies or accounting estimates.

4.2 Major Accounting Policies, Changes in Accounting Estimates and Correction of Accounting Errors

From 2014 to 2017, there were no major accounting policy changes and accounting estimates changes in P Company, and there were no major pre-accounting errors.

4.3 Change of Consolidated Statements

According to the company's annual report for 2016, the scope of consolidated statements changed during the reporting period and gained control of an Internet company.

4.4 Asset Quality Analysis

Through the analysis of the financial statements of the company, it is found that there is a high proportion of current assets of the company in 2014-2017, basically more than 90%, reaching 97% in 2016. There is a low proportion of non-current assets, basically less than 10%, and only 3% in 2016. As for current assets, the proportion of monetary funds and accounts receivable is higher than that of fixed assets, which is related to the nature of the company's industry. In the process of production and operation, the enterprise realized the continuous inflow of profits through the combination of the Internet of Things technology and the e-commerce platform. Because of the long business cycle caused by the contract between the company and its customers, the company has a certain proportion of accounts receivable. Therefore, it is normal and acceptable for the company to have this situation. For non-current assets, the highest proportion is fixed assets, which is because the company mainly engaged in electronic business. Electronic devices such as computers are essential. Therefore, accounts receivable and fixed assets are the key accounting subjects of the company. The company's Monetary Fund has increased substantially in 2016 and remained at a high level in 2017, which indicates that the enterprise's funds have been idle and not well utilized. Accounts receivable rose sharply in 2015, possibly because the enterprise is in the stage of expansion and credit sales increased. In 2016, credit sales declined sharply, indicating that the enterprise is not in the stage of expansion, so the corresponding credit sales are also relatively reduced, resulting in a decrease in accounts receivable. Other receivables are declining year by year, which indicates that enterprises may be facing huge debts to be repaid, so they need to withdraw funds. It may also be that enterprises are changing their business policies and putting funds back into other industries, or that management intends to stop the operation of companies. Fixed assets are relatively stable and there are no major problems.

5. Prospect Analysis

5.1 Using Harvard Analytical Framework to Analyses the Risks and Challenges of P Company

Based on the strategic analysis, financial analysis and accounting analysis of P Company using Harvard Analytical Framework, the development prospects of P Company can be analyzed. Through the Harvard Analytical Framework, whether it is the micro-environment, macro-environment, or competitive advantages and disadvantages, a detailed understanding of the comprehensive appeal analysis will be gotten. P company's main risks are:

5.1.1 Macroeconomic Fluctuation Risk

The Internet industry is closely related to the development of macro-economy. At present, from the perspective of the domestic economy, although China's economy has been in the stage of

high-speed growth, it is facing the transformation and upgrading of industrial structure. There is great downward pressure on the domestic economy. In this environment, the growth of the real economy slows down, and the development of Internet enterprises depends on the real economy enterprises. Therefore, in the future, the Internet industry may also be affected by macroeconomic fluctuations, leading to the trend of slowing down the growth of the industry.

5.1.2 Competitive Risk of Talents and Technology

The 21st century is the competition of science and technology, and the competition of talents. Only when enterprises have talents, they can realize the reform and innovation, grasp the development of enterprises, and provide core competitiveness for enterprises. Now it seems that the talent competition of Internet enterprises has entered a white-hot stage, especially in the field of high-end talents. Major companies even pay a lot of money to sign high-end talents into the company. From a technical point of view, software enterprises are eliminated quickly. Although there are many enterprises to choose from in the Internet industry, in the short run, the failure of software providers to cooperate will still have an impact on the business of enterprises.

5.1.3 Security Risk

The daily office and economic activities of Internet enterprises are mainly based on the Internet platform. And this platform is relatively open, users are mixed, leading to some illegal elements or some business opponents to take some improper means to obtain information. Therefore, in the future, enterprise information security construction will become an important part of the internet.

6. Suggestions

In the aspect of internal management of enterprises: Firstly, P company should perfect its internal control system, optimize its operation mechanism, improve the efficiency of enterprise management and operation, to create a good internal management environment for enterprises. Secondly, to improve the core competitiveness of enterprises by improving the construction of the talent teams and strengthening the understanding of talent information. Information security management measures should be strengthened and solutions to deal with network risks should be proposed, protect the production and life of enterprises.

In terms of the brand market: Firstly, enterprises should form their industrial characteristics, focus on building their core brand, optimize product technology innovation, and improve their core competitiveness. Secondly, it is necessary to understand the market dynamics and pay close attention to the economic development trend of the national economy and the real industry. According to the change of development, make strategic adjustments in time to avoid market risk. Thirdly, consolidating the traditional business foundation and enhancing the stability of business are also need attention. At the same time, accelerate the development of innovative business and try to avoid business homogenization.

In financial management: firstly, it is necessary to borrow moderately, increase capital turnover rate, expand production and promote enterprise development. Secondly, the management should further strengthen financial constraints, control cost and expenses, improve the turnover rate of various assets, optimize the return on net assets, to improve the efficiency of asset management and financial management of the company as a whole. Thirdly, it is a good choice to combine the preferential policies of the state and manage the internal expenditure to reduce the corresponding expenses.

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