

# WELCOME



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# Growth and challenges *vis-a-vis* service SMEs in Indian Economy: Role of State

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## Plenary Session 4 “Service SMEs: Challenges and New Opportunities”

***34<sup>th</sup> ISBC on “Synergizing International Entrepreneurial Opportunities for SMEs” at Bangkok, Thailand  
(Tuesday 13 November, 10:50-12:30)***

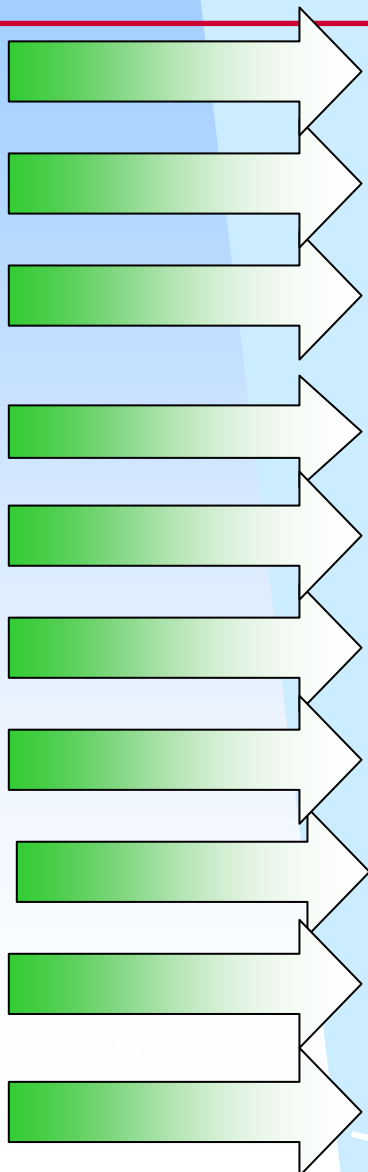


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***“As the world has few developed countries and many developing countries, the dynamics between them will be of interest to all.***

***A developed country has to market it's products in a competitive way to different Countries to remain a developed country. The developing country, to get transformed into a developed country --- it too has to market it's products to other countries in a competitive way” – Dr.APJ Abdul Kalam, Former President of India***

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- Definitions**
  - Importance of Services**
  - Services Sector Contribution to Indian Economy**
  - Internationalization of Important Services**
  - Services Export Boom: The Macro Trend**
  - The Role of State**
  - Perspectives**
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# Definitions

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- There is **No single definition of services** (They are Intangible, Instorage, Instable in quality, Inseparability between production and consumption)
- Services sector is defined more specifically to be the sector of production outside of agriculture and industry, and includes construction, trade, finance, real estate, private services, government, and sometimes transportation - *Williamson and Lindert*
- Hard and soft service industries - Erramilli
- Services differ from products by access or temporary ownership instead of ownership - Lovelock and Gummesson



# *Definitions*

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The broadest definition of the services sector encompasses all industries except those in the goods producing sectors: agriculture, mining, and manufacturing.

Therefore, services by nature of its operation can be categorised as follows –

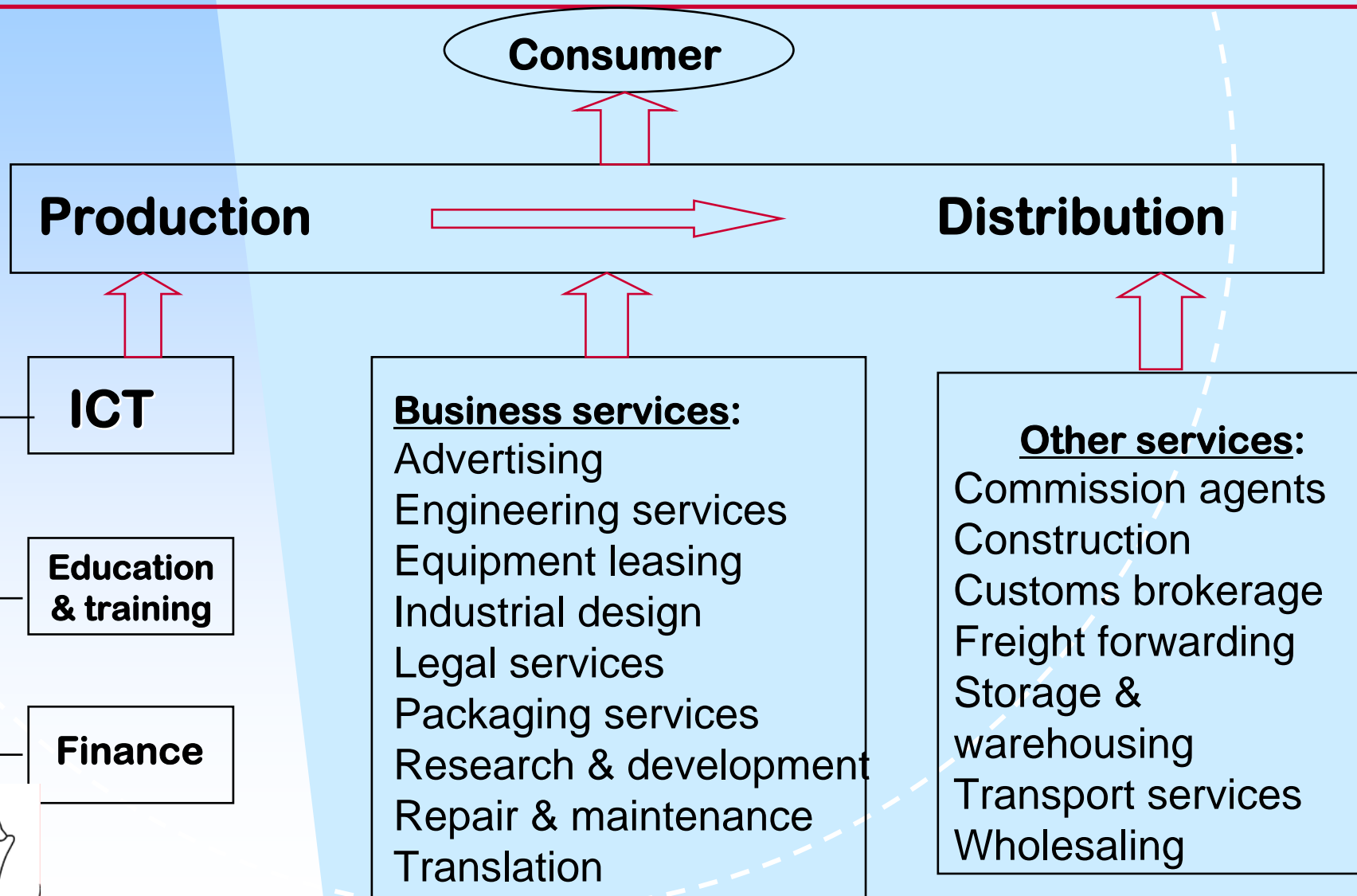
- Trading (wholesale and retailing); Business (BPO); Communication; IT; Image processing; Automated teller machines (ATM); Landscaping; Beauty parlours; Construction and engineering; Distribution; Education and training; Finance; Health; Tourism and travel; Recreation, cultural, and sporting; Cable operating; Transportation; Security; Repairs and “Other” services.

# New categorization of services [GATS]

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- #1: Cross-border: Services supplied from one country to another, *Service moves***
- #2: Consumption abroad: Consumers or firms making use of a service in another country, *Consumer moves***
- #3: Commercial presence: A foreign company setting up subsidiaries or branches to provide services in another country, *Supplier moves permanently***
- #4: Presence of natural persons: Individuals travelling from their own country to supply services in another (e.g. fashion models or consultants), *Supplier moves temporarily***

# Service Inputs for Manufacturing



# Services Values

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<b>Old Thoughts</b>	<b>New Values</b>
<b>Employees are workers</b>	<b>Partners in every sense</b>
<b>Shareholders taken for granted</b>	<b>Management is a trustee of shareholders</b>
<b>No customer care</b>	<b>Customer is God</b>
<b>One has to manage law</b>	<b>Business conducted legally in letter and spirit</b>
<b>Vendors were squeezed</b>	<b>Vendors make you strong</b>

# Importance of Services

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- They *anchor and support the entire goods production process* by providing value-added inputs for competitive industrial development
- They are *increasing as a percentage of world trade and FDI* –constitute approximately 36% of world trade and FDI in services is reaching over 60% of all investment flows worldwide
- They *contribute to job creation* –services activities have become primary creators of new jobs, accounting for over 90% of new jobs globally

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They are *vital to poverty alleviation and key to realizing* :

Directly –in terms of enhancing the availability and affordability of education, health, energy, ICT services

Indirectly –by alleviating poverty and empowering weaker section through entrepreneurial and employment creation opportunities in services enterprises

# Delivery Options

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- **Conscious choice of best option:**
  - **Purely Government/ Public sector**
  - **Purely private agency selected appropriately**
  - **Combination of Public and Private sector**
- **Properly Regulated:**
  - **Competition amongst Private sector (incl. Public Sector)**
  - **Private/Public sector monopoly**

# Services Sector Contribution to Indian Economy

## Sectoral Shares in GDP in India (*in per cent*)

Year	Agriculture #	Manufacturing $\Psi$	Services*
1950-51	59.19	13.29	27.52
1960-61	54.74	16.61	28.65
1970-71	48.12	19.91	31.97
1980-81	41.82	21.59	36.59
1990-91	34.92	24.49	40.59
2000-01	26.18	24.98	48.30
2006-07	18.50	26.40	55.10

# includes forestry and logging, fishing, mining and quarrying;  $\Psi$  includes construction, electricity, gas and water supply; \* includes :(a) transport, communication and trade; (b) banking and insurance, real estate, dwellings and business services; and (c) public administration and defence and other services.

Source: Economic Survey Reports



# Services sector's share in GDP

*(in per cent)*

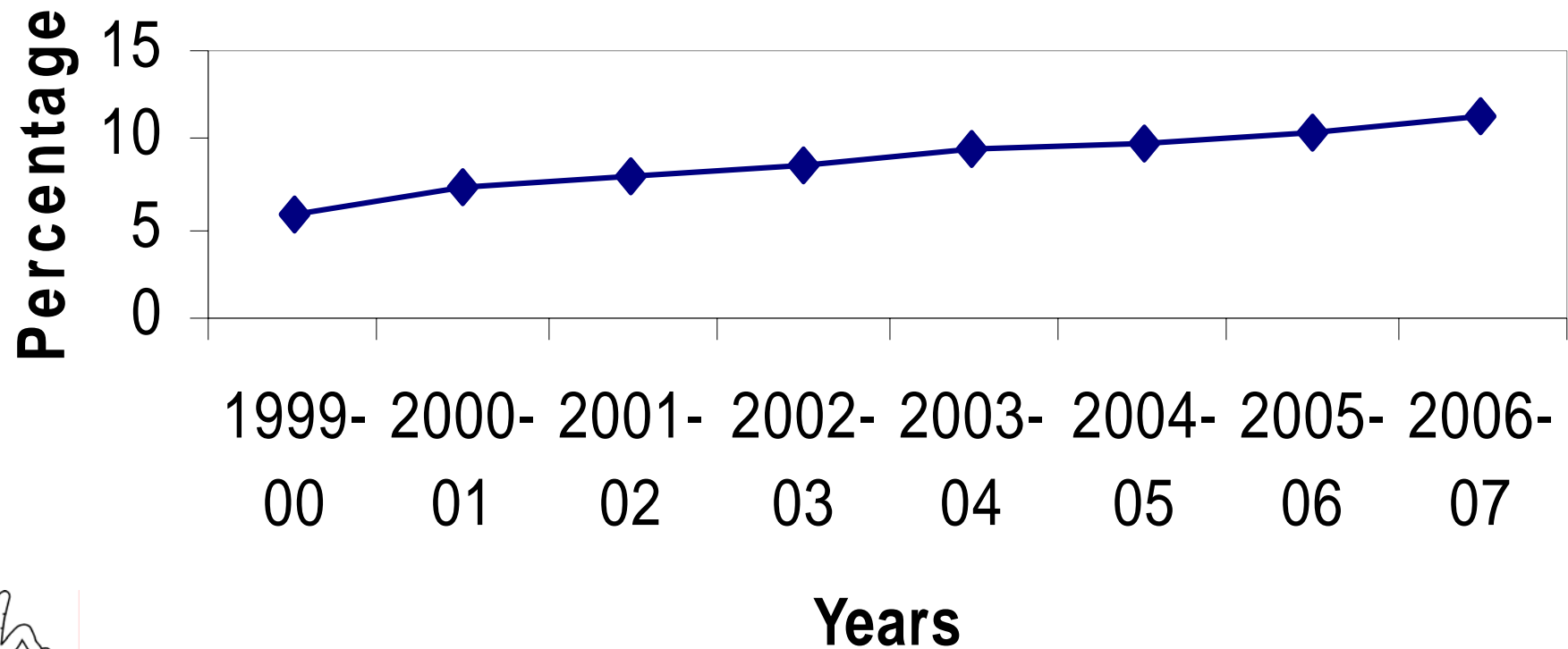
Year	Services	Year	Services
1950-51	27.52	1997-98	45.77
1960-61	28.65	1998-99	46.46
1970-71	31.97	1999-2000	47.88
1980-81	36.59	2000-01	48.30
1990-91	40.59	2001-02	49.32
1991-92	41.99	2002-03	50.71
1992-93	42.09	2003-04	50.70
1993-94	42.77	2004-05	51.70
1994-95	42.71	2005-06	54.12
1995-96	43.95	2006-07	55.10
1996-97	43.69		



Source: Economic Survey Reports

# Aggregate Services Growth Rate

## Aggregate Services Growth rate



# Internationalization of Important Services Provided

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- Software and ITes
- Education and Training
- Entrepreneurship
- Entertainment
- Hypermarkets
- Tourism and Hospitality
- Business Development Services for Clusters
- Micro Finance for Informal Sectors

# The Past...



Photo of the Old FPS with customers waiting in a line  
Visnagar Dist. MEHSANA-Gujarat



People were delivered essential commodities like Wheat, Rice, Maize, Jowar, Bajra, Pulses, Edible Oil, Sugar, Iodized salt, Kerosene, cloth, match box, note books etc. at subsidized rates under the Public Distribution System.

# The New Concept...



Customer shopping at the Modern FPS  
VASAD Dist. ANAND-Gujarat

Model Fair Price Shop.....

.... a first of its kind initiative in India and also a contemporary continuing activity

# Status of Internationalization

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- Developed countries service dominated – 68% of their gross national product
- In average trade with services about 22 % in OECD countries
- Service sector grown quicker than products
- FDI in services 71% of all FDI in Denmark, 30% in Sweden and 14 % in Finland
- SME sector generally contributes 10% to total exports

# Services Export Boom: The Macro Trend in India

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Services exports grew by 27 per cent in 2005-06 to US\$ 46 billion, and 33.5 per cent to US\$ 61.4 billion in 2006-07.

In 2005-06, IT services exports grew by 32 per cent to US\$ 13.3 billion, and by 31 per cent to US\$ 18.1 billion in 2006-07.

India's share in the world market for IT software and services (including BPO) had increased from around 2.3 per cent in 2004-05 to 2.8 per cent in 2005-06 and an estimated 3.8 per cent in 2006-07

In 2005-06, the tourism sector earned US\$ 2.2 bn and grew at 19.6 percent and reached US\$2.6 bn by 2006-07

# The Role of State

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1. Education
2. Training and technical assistance
3. Access to a diversity of capital
4. Networks of support and an enabling culture
5. Supportive policies

# Perspectives

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- the service sector can be expected to contribute in raising and sustaining a higher growth rate for the economy, as also for exports
- opens up the doors for the employment of people who will shift from agriculture and industry as a consequence of rise in productivity in these commodity sectors on account of technological progress
- An increasing proportion of people's expenditures will shift from commodities to services
- The expanding services sector indicates a big potential for increasing tax revenue by offering a vast scope for extending the tax base



# The India Advantage

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**Excellent network  
of Institutions**

**Low manpower  
costs**

**Pro active  
policy framework**

**Well-developed  
base industries**

**Quick Adaptability**

**Trained manpower  
and knowledge base**

**Proficiency in  
English**

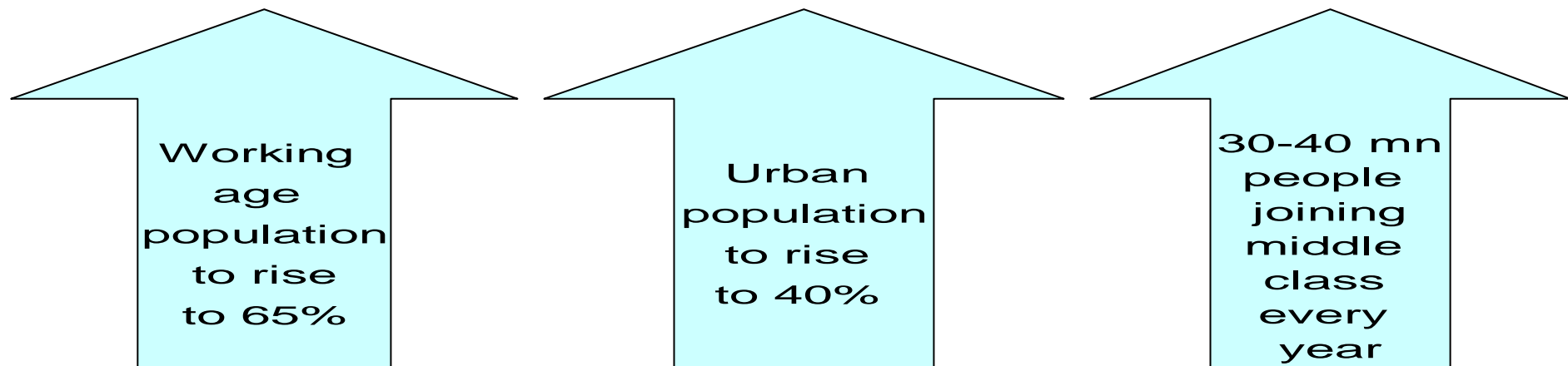
**Extensive Market  
opportunities**

# Demographics: A strong demand driver for Services Sector

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- India has 1 billion people
  - 180 million households
  - has a large potential untapped market of size equal to that of the rest of the world (excluding China)

**By 2020**



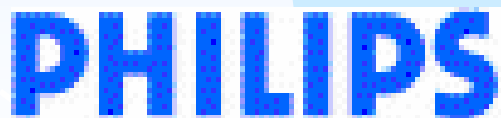
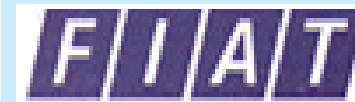
# The India Advantage

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- **Organised sector**
  - works 200 to 225 days a year, 6 to 8 hours a day
- **self-employed sector**
  - works 300 to 325 days a year, 9 to 12 hours a day
  - manpower costs 1/3 to 1/4 of that in organised sector
  - **STD PCO, cable TV, milk distribution, roadside shops**
    - make goods and services affordable at large
    - a challenge to make business plan for this sector



# MNCs leveraging the India Advantage



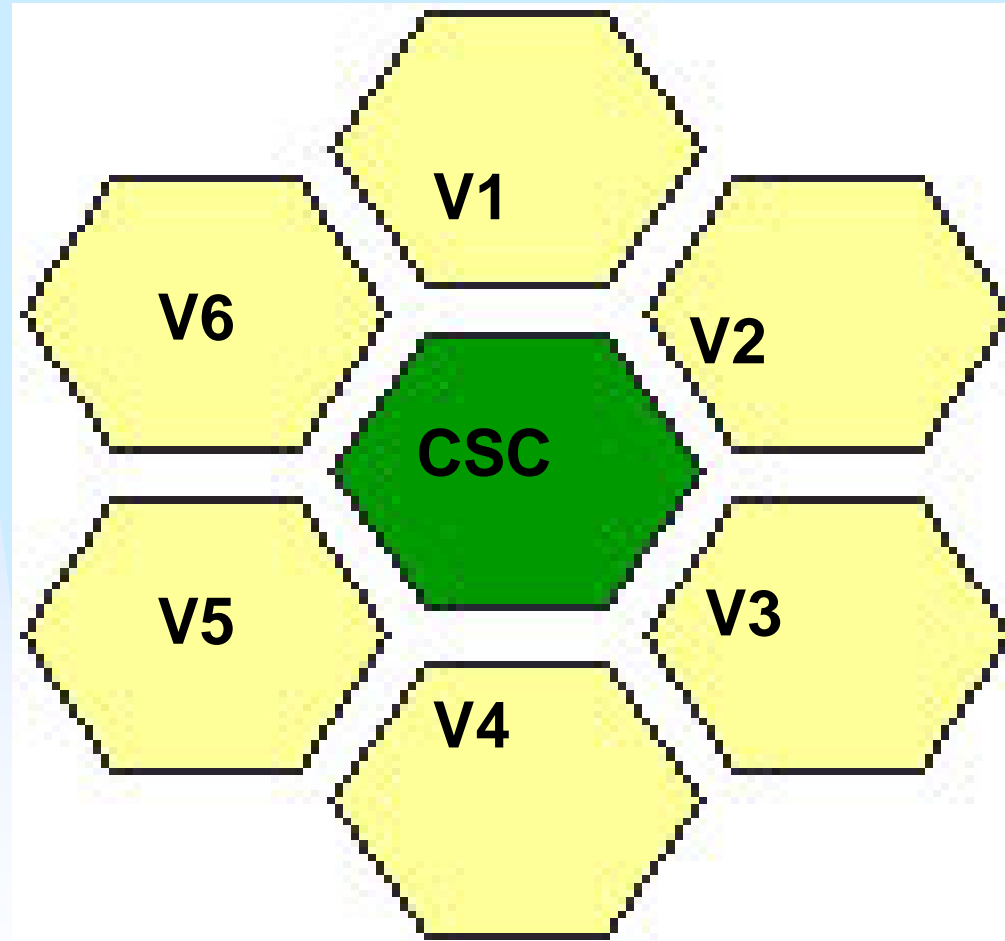
# Global Constraints

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- **Supply of services not linked to**
  - Demand
  - Ability/ Willingness to pay
  - Revenue generated
  - Experience at interface point
- **Budgetary pressures and vested interests perpetuate**
  - Supply constraint
  - Use of procedures to curtail demand
  - Poor Infrastructure
  - Poor record keeping
  - Absence of tracking, accountability

# Indian IT Model in Rural Areas

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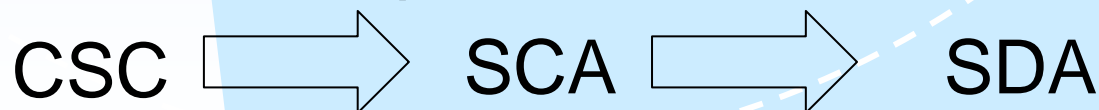


**Honey Comb structure for location of CSC**

# Indian IT Model in Rural Areas

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- The Common Services Centres (CSC) Scheme announced in March 2007, to cover 600,000 villages across India
- 100,000 Common Services Centers
- One CSC to service cluster of 6 villages
- Broadband Connectivity at the Last-mile
- To be implemented in a PPP Framework
- Focus on Rural Entrepreneurship creation
- It has 3-Tier Implementation Framework



# Suggestions

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- Setting up of export promotion councils other than for computer software
- Minimization of various visible and invisible barriers
- Consultancy and R&D services will improve the sector
- The policy measures announced in the foreign trade policy to promote services exports should help the sector along with proper synergy between economic policies and trade strategies
- A constructive partnership between the private and public sectors has to be established for sustained growth

# Suggestions

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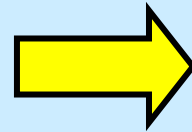
- Management training and sharing experiences among developing countries create better services
- Leverage competitive position in ICT, R & D, Tourism etc: Back office operations; Software development; Contracted research & development; Health tourism
- Require designing affordable products/Services
- Providing sophisticated and simple service but with quality



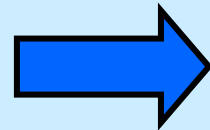
**CAN I HAVE YOUR CREDIT CARD DAD?  
I HAVE FOUND A WEBSITE THAT DOES  
ALL YOUR HOMEWORK FOR A SMALL FEE!**

# Major Issues

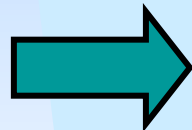
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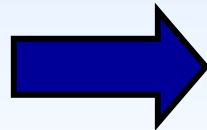
**Common Definition**



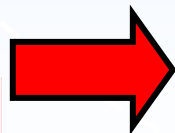
**Augmenting internal capacities  
& Net working**



**Choosing appropriate service delivery options:** Extent of Outsourcing; Separation of Front end from back end



**Linking services delivery to demand:**  
Scaling up, new institutional mechanisms, Willingness /ability to pay



**Attitude:** The miniscule number who make things happen;  
A significant minority who watch things happen;  
The vast majority who have no idea what happened !



Danke  
gut

Merci



Dhanyavad

Thank  
you