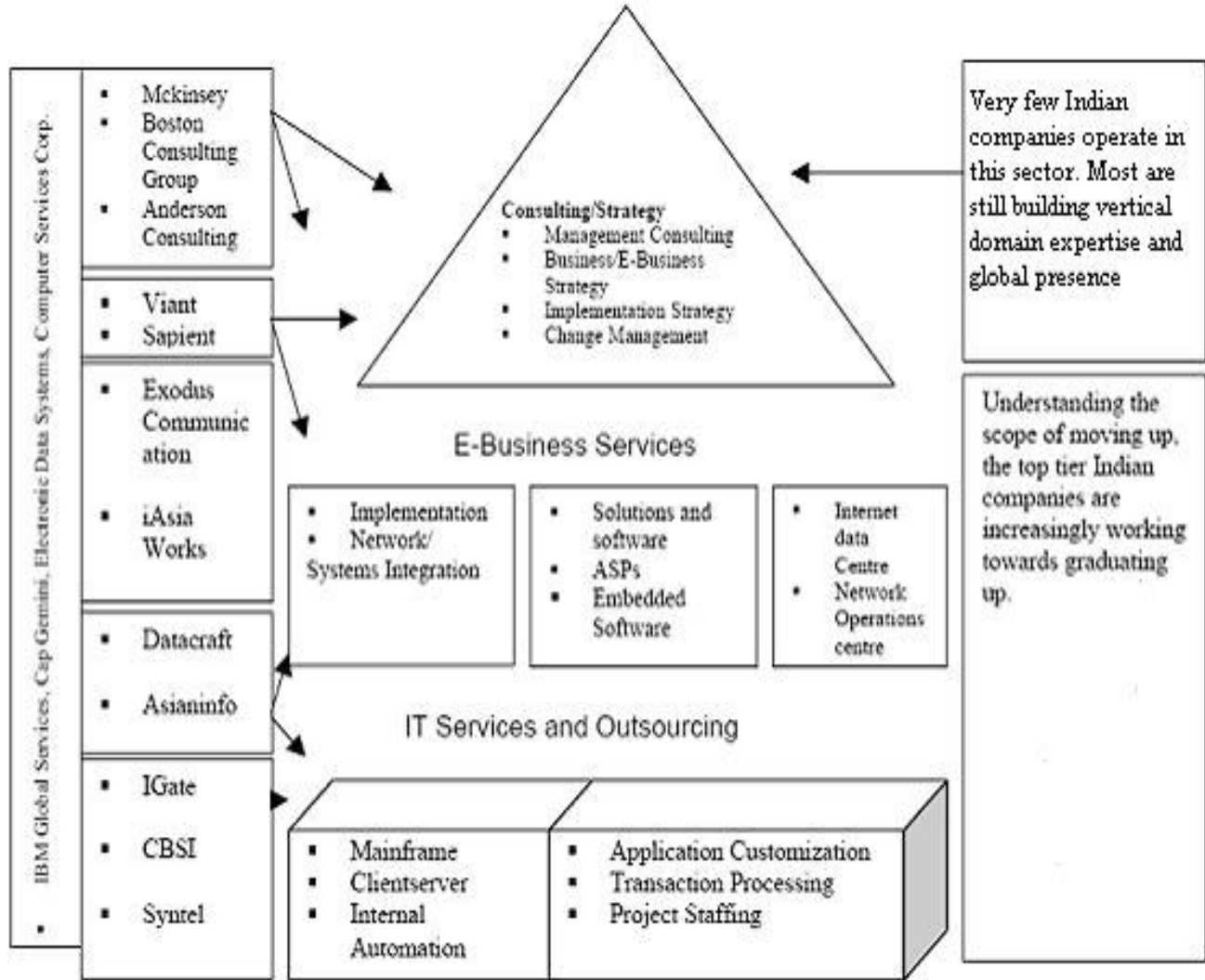


***Silicon bITes***

***IT/ITES: Ascending the Value Chain***

Source: www.indiaonline.com



The large Indian software companies are still tiny in comparison to their global competitors. They must maintain high growth rates and retain high profit margins to ride market capitalization. To maintain current valuations, companies will have to go up the value chain by offering high-end services and simultaneously shift a larger proportion of their service offshore.

Indian IT industry is uniquely placed to make forays up the value chain owing to its highly skilled human power. The challenge is to disown an image of 'low-cost, low-end operator' through extensive intellectual capability building. Gains could be in terms of business generation across the value spectrum through Business Consulting → Technical Consulting → Offshore Implementation.

Indian ITeS-BPO industry too is metamorphosing. It is climbing up the value ladder managing key processes involving finance, human resources, payment services, administration and content and product development rather than just functioning as call centers. However, profit margins are slim and hence volumes and big clients are necessary for profitability. Besides, for farming key processes, unlike the English speaking resources of a call centre, professionals like chartered accountants, lawyers and editors have to be hired. Competition too is mounting from new quarters like China, Philippines, Malaysia, Singapore, Hungary and Poland.

*Seminar main theme paper*  
*Global Curry - Indian Flavours*

Last year at the same forum we explored the way ahead for Indian business. We sought to understand how and what India Incorporated must prioritize in its quest for corporate and economic brilliance. We also tried to understand business, as it is expected to be conducted in the future. Today, as that occasion turns twelve months old we find ourselves in the midst of a new business paradigm. This new realm of business is characterized by a modified political, economic, social and technological environment. The legal framework for business is turning out to be as suffocating as the technological framework is turning out to be free-breathing. That globalization, which, for some time has been accused of devouring local enterprise, crippling domestic industry and dominating indigenous sectors in the economy, is now threatening to enact those very accusations. In this scenario host businesses will have to adapt quickly to changing corporate mannerisms, lest they succumb to the threats being posed. What makes this new setting complicated is that challenges are no more general, but specific to sectors. At this edition of Paragana, we endeavor to explore the key challenges to certain crucial business sectors of the economy.

Leading Indian IT software companies are globally admired brands in the IT software exports industry. Not only have these companies given their clients value for money, they have actually delighted them by providing quality of the highest order and by setting examples of ethics and corporate governance. They have effectively targeted the IT needs of various industry verticals like Financial Services, Telecom, Manufacturing, Healthcare, Utilities, Retailing, Travel, Transportation, Logistics and the Government. Their activities largely involve Enterprise Integration, Consulting and Package Implementation & Support. The services sector is poised to grow rapidly in the coming years and we have the advantage of a large cost-effective talent-pool supporting this. The ITES and BPO sectors too are recording impressive growth. India has so far outshone competing ITES nations like Ireland, Philippines and China owing to the unmatched price/performance/quality proposition. The concern however is the over dependence on US market, lack of R&D investments for products, political resistance to outsourcing and major IT

multinationals setting shop in India. The challenge to local players is undoubtedly tackling these concern areas while retaining business volumes and also moving up the value chain.

The Manufacturing sector has its own success stories to tell. Success on the home front by major manufacturers has enabled them to think global. The past few years have seen significant restructuring activity with mergers, acquisitions and strategic collaborations taking place between Indian and foreign players. The concern with the manufacturing sector is that Indian producers score low on productivity and competitiveness parameters. Manufacturers need to incorporate performance orientation and quality focus at the earliest. The government too would need to contribute by speeding labor reforms, enacting tariff reductions and providing FDI incentives. The coming years will test the resilience of Indian Manufacturing and provide us with an answer to whether India can become a global hub for manufacturing or not.

India's \$180 Billion retail market is the most fragmented in the world. A mere 2 % of retail trade is organized. The unorganized sector is mainly comprised of the neighborhood kirana stores and the paanwalaas. This low cost and size model leads to cheap labor, tax evasion and low retail margins. The past few years have seen some activity in the organized retail segment by major retail chains. The prospects for organization seem brighter given the interest that global chains have shown in the Indian market. While this will be extremely positive for revenue generation by the government and will subsequently lead to reduction in the fiscal deficit, the flip side is large scale unemployment (at least in the short run) that might be caused in the event of the existing setup giving way to an organized setup. Questions also remain about the Indian consumer's possible apathy towards organized retail. Concerns are being expressed over the anti FDI legislations, rental laws and supply chain regulations that act as major barriers.

The Indian Pharmaceutical industry is ranked 4<sup>th</sup> globally in volume terms and 13<sup>th</sup> in value terms. With an annual turnover of Rs. 226 Billion growing at 5.1%, it is one of India's most promising business sectors. Indian pharmaceutical products reach more than 65 countries and account for approximately Rs.141 billion. The sector is poised to grow substantially by 2010 owing to opportunities in the areas of outsourcing of clinical trials, R&D, custom synthesis and technical services like Bioinformatics. Positives for the Indian players include a well established infrastructure and R&D investment, availability of competent ancillary industry and skilled

workforce. The year 2005 onward the industry is expected to experience some major changes. With the patent regime gaining momentum and patent expiries of major drugs on the anvil; how Indian players feature in the big picture is an important question with respect to this sector.

The Indian banking industry is characterized by a high concentration of players with varying financial strength. The trend is towards innovative banking and financial services products and the concern, corporate governance. While the government deliberates BASEL II norms and their implementation in the Indian context some banks have been found guilty of flouting public money, depositor faith and government regulation. Keeping this in mind the Reserve Bank of India has recently written a discussion paper that proposes a framework to reduce individual stake in banks. The framework has been drawn up keeping in mind the special nature of banks as they not only accept and deploy large amounts of uncollateralized public funds in fiduciary capacity, but also leverage such finds through credit creation and are important for the smooth functioning of the payment system. The introduction of this paper is expected to put the banking sector in turmoil, lead to the withdrawal of FDI and dilution of stake by the large financial investors. It is for this reason that the feasibility of this regulation needs to be debated.

The Indian media and entertainment industry is in the process of undergoing a sea change. As media houses get increasingly corporatised and the focus in the industry shifts to quality and accountability, the need of the hour is indeed a structured financing system. The concern is not only that of a greater quantum of money but also of processes that make acquiring and repaying the money more transparent and convenient. Undoubtedly the industry could use a more systematic financial system, but the question is whether it is ready for one or not.

Can India's indigenous industry cope with the dynamic business environment that globalization threatens to be accompanied with? Does it have the substance, depth and expertise to tackle specific sectoral challenges? What will be the extent of WTO control over the way we conduct business? What must India Inc. do to strengthen its strides as it traverses the path ahead?

We seek answers to the above and more, at Paragana 2004.