

INSIDE



Dial One97

Telecom service provider places its bets on the growing MVAS market and there's no looking back

pg 3



Flying high

Sky's the limit for cloud computing as the revolutionary concept makes remarkable inroads into India

pg 4



Ailing by the dozen

All's not well for the 'sick' SMEs which are in dire need of help from the government and banks

pg 6



Fraud seems to have seeped into the India Inc fibre. Along with bribery, corruption and IPR frauds, supply chain fraud figures among the top risks. *Fasttrack* addresses the risks and lists measures to remedy the damage

SHEFALI THAPLIYAL

If one was to look at the headlines, it would be clear that fraud and misconduct are a major concern in India Inc today. Whether it is a financial statement fraud in Satyam, an alleged insider trading issue in Goldman Sachs or the IPL controversy, these issues demand a need for transparency in business.

According to KPMG's India Fraud Survey Report 2010, 75 per cent of respondents said there has been a rise in the incidence of fraud overall, and specifically within their industry. This is a clear indication that companies need to take fraud risk seriously and have zero tolerance as this not only impacts a company financially but erodes the core elements that businesses are built on, i.e., confidence and trust.

Volatile economics

According to Deepankar Sanwalka, Head, Risk and Compliance, KPMG India, the fact

that 75 per cent of the respondents believe that incidents of fraud have increased over the last two years could be on account of two things. "Volatile economic conditions coupled with increasing business and technological complexities have led to increased opportunities for fraud. Moreover, weak internal control systems, eroding ethical values and a reluctance on the part of the line managers to take decisive action against the perpetrators are cited as the underlying reasons for frauds being on the rise," he says.

Another reason for such perception, adds Sanwalka, is that "the knowledge level has now increased and organisations have come to realise that a reactive approach to dealing with fraud situations is not enough, thereby leading to an increased level of fraud being detected. While frauds were taking place earlier as well, more frauds are now being detected."

Manifold increase

Compared with its Fraud Survey in 2008, the quantum of frauds has been found to have

increased manifold. Eighty-seven per cent of survey respondents state that their organisation had incurred fraud losses of more than Rs. 10 lakh as against 47 per cent in the last survey. However, compared with 2008 survey results, more respondents seem to have applied fraud risk controls and processes in their organisation.

"Two findings that remain similar with the 2008 and 2010 survey are the identification of the financial services sector as being the most susceptible vertical to fraud and the enemy within continues to pose the biggest threat to an organisation," Sanwalka says.

Supply chain quandary

Interestingly, supply chain was found to be extremely vulnerable to fraud. Procurement, distribution and revenue leakage are the areas most prone to fraud, the survey suggests.

"Today's globalised and intertwined markets have vastly contributed to increased business com-

Continued on Page 2

MESSAGE



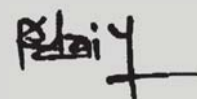
TIME TO JAAGO RE

It is a sad situation for a country as promising as ours that despite a 8 per cent-plus growth rate, its roots are being eaten by the worms of corruption, bribery and fraud. A survey points that fraud is on the rise but what really stands out is that almost 50 per cent of the respondents believe bribery is considered as an acceptable behaviour!

Whether it is passing a fifty-rupee note to the traffic cop or passing an envelope under the table, corruption has spread its ugly tentacles everywhere. Supply chain fraud, too, is a gaping hole. With its interdependent domains, the supply chain is one of the most susceptible areas for fraud. Fraud risk management, thus, is an extremely vital issue for companies and should be treated on par with any other business risk. The use of technology should help crush the devil before it rears its head.

Talking of technology, cloud computing is the latest tune many companies are humming. And for obvious reasons. The use of this application can work wonders for the supply chain world too as it promises to bring operations to a common, centralised platform. Our *InsideOut* feature explores the ever-expanding world of the cloud and what it means for SCM.

The *SMEWatch* section brings to light another stark truth about 'sick' SMEs in India. The government can't afford to have a huge number of them turning sick. The subsidies, schemes and legislatures exist but there seems to be an invisible chasm preventing them from reaching the SMEs. There needs to be a way to bridge the gap in order to benefit from the 13 million-odd SMEs that operate in the country, just as India Inc needs to open its eyes to fraud.



PAWAN JAIN Chairman & MD,
Safexpress Pvt Ltd

plexities, especially in the area of supply chain,” Sanwalka says, adding, “supply chain is one of the riskier functions of the organisation where disruptions impact the revenue, market share and distribution costs.”

It is a fact that cannot be dismissed – organisations enter into various alliances during the course of their business life cycle. Fraud risks in supply chain can occur during the procurement (or sourcing) of the products, storage or during sales and distribution. The risk of supply chain extends from primary sourcing of the raw material to distribution of the finished products.

“With growing business needs and footprints in various markets, the supply chains are becoming more complex thereby enhancing the risk of fraud at various touch points,” Sanwalka adds.

Lucknow-based supply chain consultant Vijay Mathur agrees. “A typical supply chain domain encompasses many smaller domains of activities such as warehousing, inventory control, logistics, procurement, distributions, etc. All these activities may be undertaken by the same company or by other companies as the supply chain partners. Obviously, since many partners are acting at any point of time, a successful supply chain depends on the interdependence of mutual trust. Frauds, therefore, because of the very nature of the whole big domain, can’t be ruled out,” Mathur says.

He also suggests that since most of the activities going on in a supply chain involve simultaneous flow of goods, information and finances moving down and up stream and major proportion of the working capital gets involved, the damage can be “extensive if any fraud takes place.”

Watch out

The survey also indicates that apart from intellectual property, bribery, corruption and computer-related fraud, supply chain fraud is going to be the risk area in the coming years.

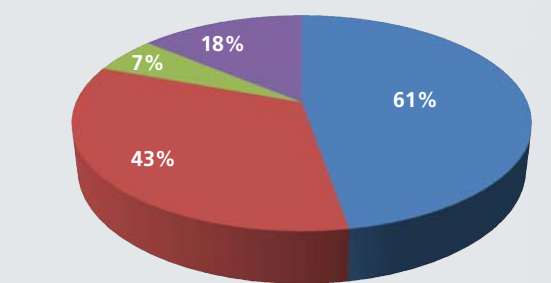
“The growing complexity of the supply chain in an organisation cannot be denied. With multiple forms of supply chain fraud prevalent in the market – employee thefts, siphoning of stock by third party vendors, product diversion and parallel importation – lack of effective internal controls as well as the lack of an appropriate inventory management system are the top two reasons why a company continues and will continue to be vulnerable to supply chain fraud,” Sanwalka points out.

The saving grace

However, the silver lining exists. Companies can use technology and other measures to counter the fraud risk or minimise it.

“Anticipating a fraud may not be difficult, though its nature varies from industry to industry,” Mathur says. Most of the frauds may find their roots in poor information flow and in an element of mistrust among the partners, upstream or downstream.

FORMS OF SUPPLY CHAIN FRAUD



Source: KPMG Fraud Survey report 2010



“While frauds were taking place earlier, more frauds are being detected now”

Deepankar Sanwalka,
Head, Risk and Compliance, KPMG India



“The key to minimising fraud risk is to develop online reporting systems”

Vijay Mathur,
Supply chain management consultant

“While there cannot be a single point agenda to avoid the incidents of fraud, the suppliers and the retailers shall do good to devise an electronic system, or otherwise, that can help them interchange information smoothly,” Mathur opines.

According to Sunil Khera, Director, Ascent Supply Chain Consultants, automation has helped in reducing the supply chain fraud to some extent.

“Indian companies operate in an environment which is full of corruption. The companies also get involved in some unethical practices due to corrupt operating environment,” Khera says, adding he has come across hundreds of cases of supply chain fraud in his career.

He says an organisation can minimise the risks by having good system/procedures and check/control.

Mathur says risks can be minimised by devising a sound MIS and effective monitoring of different activities. “There must be tools necessary to check the compatibility of input and output of a supply chain link.”

Procurement, sales and distribution – all are specialised subjects today and have effective checks and balances within their system, Mathur points out. “In fact, the key to minimising fraud risk is to develop online reporting systems with enough cross checks and provision for audit trail.”

Regulations, too, have become more stringent and fraud risk management has come to the fore now. Organisations realise the importance of a fraud risk management process where the responsibility needs to be shared across the company board, senior management, internal audit and risk functions.

Sanwalka says: “While the usage of data analysis tools to analyse critical patterns and trends in data and understanding scenarios of potential fraud need to be inter-woven into the fraud risk assessment process, it is still work-in-progress. But, the industry as a whole has come a long way.”

Road to recovery

It may not be a reason to celebrate, but the fact that the 2010 report shows a slight improvement – highlighting over 42 per cent respondents who said they have implemented proactive data analytics in various streams in their organisations to detect anomalies – may be a good enough reason to smile. India Inc may be far from being fraud-free but seems to be getting on the road to recovery. ■

THE RED SIGNALS OF SUPPLY CHAIN

Some indicators could be as follows:

1. Reluctance to change the vendor.
2. Low quality of goods procured at high prices.
3. Unusual increase in sales towards end.
4. Different prices in the market than prevailing price of the company.
5. Poor documentation pertaining to stock handling.
6. Frequent complaints or return of goods.
7. Quantity sold by retailers in the market is more than the maximum stock sold to wholesale distributor at any point in time.
8. Sales / procurement staff demanding more lead time before getting prepared for an audit.

Source: KPMG India

SUPPLY CHAIN FRAUD STATISTICS

Sixty-one per cent of respondents feel employee theft is the most common form of supply chain fraud.

Forty-nine per cent respondents feel conducting background checks for employees and suppliers can aid in mitigating the supply chain fraud risk.

CONTRIBUTING FACTORS

While 66 per cent of the respondents identify lack of effective internal controls as the main reason for supply chain leakage/fraud, 36 per cent of the respondents indicate lack of appropriate inventory management systems as a reason. Additionally, 34 per cent of the respondents identify lack of due diligence on third parties as one of the key reasons for the fraud.

Source: KPMG India

LEADERS

A NOTCH HIGHER

The ingress of mobile phones has opened the door to a world of value-added services, making the mobile phone screen as the first screen of communication

The telecommunications market in India is one of the fastest-growing in the world and projected to become the second-largest telecom market globally. According to Business Monitor International, India is currently adding 8-10 million mobile subscribers every month. By mid 2012, almost half of the country’s population is estimated to own a mobile phone. This would translate into 612 million mobile subscribers, accounting for a tele-density of around 51 per cent.

As the number multiplies, the scope for mobile value-added services (MVAS) increases too. MVAS in India accounts for 10 per cent of the operator’s revenue, which is expected to reach 18 per cent by 2010. According to a study by Stanford University and consulting firm BDA, the Indian MVAS is poised to touch \$2.74 billion by 2010.

Shefali Thapliyal speaks with Vijay Shekar Sharma, founder of One97, a large Indian telecom solutions provider, about the company’s strengths and the VAS market in India.

1. One97 was awarded the 10th rank in the list of fastest-growing technology companies in India by Deloitte Touche Tohmatsu Asia Pacific last year. Despite the slowdown, the company continued to record remarkable growth. How did it manage to do so?

The One97 business model is based on the use of mobile as a multiuse device and telecom as a base to conduct multilevel transactions. Our strengths include providing access to a significant number of mobile phone users in India, long-standing relationships with telecom service providers and strong culture of innovation with a deep understanding of consumers’ preferences.

As our product portfolio and end-user base expands, we benefit from increased market understanding, which enables us to analyse purchasing and usage behaviour, develop products which match consumer preferences and cross-sell services to the consumers we reach.

We draw significant benefits from our scale of operations and breadth of products: Our business exhibits significant economies of scale in the areas of software development, manpower costs, hardware and software purchasing, centralised operations support staff, content purchasing and infrastructure purchasing and deployment. We use the same platform for our network services and consumer services, which enables us to extract value from cross-selling services, data mining, cost sharing, reuse of software code, sharing of system resources and databases and other similar synergies.

We have a diversified income base, which reduces our reliance on any one market, telecom service provider, product or service.

2. What is the size of the mobile VAS industry in the country? How do you see it expanding in the coming years? Has the introduction of 3G networks helped the growth? If yes, how?

Mobile VAS market revenues in India constitut-



We benefit from our scale of operations and breadth of products

ed 5.4 per cent of the total mobile services market revenues in fiscal 2009. It is expected to grow from Rs. 44.1 billion in fiscal 2009 to Rs. 129.2 billion in fiscal 2016 at a CAGR of 16.6 per cent. With telecom service providers increasingly looking to grow mobile VAS offerings, it is anticipated that this market will experience strong growth, especially after the proliferation of 3G networks.

3G-based VAS is expected to contribute significantly to the VAS revenues, with more content being created by the VAS content generators/aggregators to take advantage of the benefits of the 3G spectrum. It is expected that once the 3G spectrum becomes available in India, about 275 million Indian subscribers will use 3G-based services, and the number of 3G-enabled handsets will reach close to 395 million by the end of 2013.

4. What are One97’s main streams of revenue? What is the share of revenue from each stream?

We are a leading provider of telecommunications value-added services to telecom service providers, consumers and enterprises in India. We offer products and services to meet the needs of telecom service providers, consumers (i.e., mobile phone users) and enterprises. We develop and purchase content and applications, provide the relevant platform for delivery of our products and services and integrate these products and services with the core network elements of telecom service providers. Our applications can be deployed on any telecom network and accessed from most mobile handsets.

Our consolidated total income was Rs. 407.71 million for the year ended March 31, 2008, Rs. 813.97 million for the year ended March 31, 2009, and Rs. 867.45 million for the nine-month period ended December 31, 2009. Our consolidated net profit as per restated summary statements was Rs. 44.58 million for the year ended March 31, 2008, Rs. 21.37 million for the year

ended March 31, 2009, and Rs. 124.18 million for the period ended December 31, 2009.

Our revenue from network services, consumer services and enterprise services comprised 53.52 per cent, 35.65 per cent and 10.82 per cent, respectively, of our operating income until last December. We offer several product lines to each of the network services, consumer services and enterprise services markets.

5. One97 has already incubated companies like Oorja, the customer analytics firm; PayTM, the mobile commerce platform; and Oc2ps, the social networking application. Are there plans to invest in more new ideas?

We are open to incubating in mobile technology start-ups and support that ecosystem. However, there are no announcements to make at this point.

6. Your company has invested in Singapore-based tenCube to offer WaveSecure, the mobile security service, to the Indian customer. In what manner will the use of this service help minimise security issues of mobile handsets?

WaveSecure service enables mobile phone subscribers to protect their handsets and personal data against misuse in the event that their handsets are lost or stolen. It enables subscribers to remotely lock down their phones, activate a warning message on the screen of their handsets and sound an alarm. WaveSecure further enables a subscriber to track the lost or stolen phone and send SMS and e-mail alerts to contacts regarding the loss or theft of the phone.

In addition, WaveSecure provides subscribers with the ability to back-up personal data, either through an auto back-up mechanism or through a remote trigger mechanism.

WaveSecure also gives subscribers the option to remotely wipe all data and information from a lost or stolen handset. WaveSecure was developed by TenCube, in which we have a 21.28 per cent ownership interest. We have the exclusive right to represent and re-sell WaveSecure in certain Asian countries and Africa, pursuant to an agreement with TenCube.

7. The continuous pressure of introducing new products and services poses several challenges for the supply chain. How does your company tackle the supply chain-related challenges? What are the typical supply chain hurdles faced by your industry?

We have long-standing relationships with suppliers, manufacturers, network integrators. Most hardware infrastructure is based on long-term planning and reuse. The lead times are adequate to allow us to manage supply chain-related challenges. At the same time we are thankful for the excellent support extended to us by our partners and associates.

8. Could you share your company’s future plans in terms of expansion?

A crucial element of our business strategy is the expansion of our network services, consumer services and enterprise services businesses globally by targeting international markets in which we do not currently provide our services. ■

ON CLOUD NINE

Cloud computing has been recognised as the evolutionary business tool no less influential than e-business. In the supply chain context, cloud services could be an answer to end all supply chain woes. **Fasttrack** explores the ever-growing cloud influence

When it comes to benefiting from latest developments in software technology, 'logistics' is usually at the end of the queue as ERP applications and manufacturing take precedent. By the time those demands are fulfilled, there is relatively little budget left for logisticians who are looking to make operations more efficient.

However, the good news is this trend is now changing. The current hot technology, cloud computing, has set out to change the way we use computer technology at work, and supply chain operations are amongst the earliest beneficiaries.

What is cloud computing?

The 'cloud' is a metaphor for Internet-based tools used by a host of divergent customers at any time from any location. US-based industry analyst firm Gartner defines cloud computing as a "style of computing where massively scalable IT-enabled capabilities (such as software) are delivered as a service to external customers using Internet technologies."

In other words, cloud application services deliver software as a service over the Internet, eliminating the need to install and run the application on the customers' own computers. Some of its key characteristics include:

- Access to, and management of, commercially available software.
- Operations that are managed from centralised locations rather than at each customer's site, enabling customers to access applications remotely through the web.
- Application delivery that aligns to a one-to-many model rather than to a one-to-one model, including architecture, costing and management.
- Centralised feature updating.

Unlike the Americas and European countries, India hasn't hit the saturation level of IT adoption and the scope is immense. Cloud computing is still in very nascent stages in the country but the huge untapped market for IT services makes it a pet playground for cloud service providers.

Technical biggie Microsoft, which sees India as becoming the global hub for cloud computing in the years to come, has been aggressively trying to make its cloud computing push a success in the country.

What makes India ideal for tapping this growing opportunity is its over 1300 independent software vendors (ISVs), 1.4 million developers and



"I believe security being less on a cloud is a myth"

Narsimhan Kishore Mandyam, Director, Impel

more than 11000 system integrators (SIs and custom software development organisations).

The growing boom in software development for cloud computing will seed 300,000 jobs related to cloud services, to be created in India over the next five years, according to US firm Zinnov Management Consulting. The global cloud computing market is estimated to be worth over \$70 billion by 2015.

For Indian businesses this spells boom, given that 30 per cent, or \$7 billion of the global cloud computing work, is to be offshored, according to Zinnov.

"The cloud market is still in its adoption stages," says Nitin Mishra, Vice-President, Product Management at Mumbai-based IT service provider Netmagic.

Mishra adds the initial adoption has come from tech-savvy companies and web application services and believes it will be "a year or so before cloud becomes a mainstream option even for business applications."

According to Narsimhan Kishore Mandyam, Director, Impel, a Bangalore-based provider of CRM (Customer Relationship Management) services, "Cloud computing is very early in the Indian marketplace. The typical users of the cloud are IT shops (to host their internal apps) and software vendors, particularly SaaS vendors (to host their software for customers)."

Mandyam points that though large IT shops are justifiably leery of using the cloud, "companies are open to the idea,



"The cloud market is still in its nascent stage"

Nitin Mishra, Vice-president, Product Management, Netmagic

especially if part of a SaaS offering." SaaS, or Software as a Service, is a subset of cloud computing and is a software that's owned, delivered and managed remotely by one or more providers.

Advantage all

The advantages of cloud computing accrue differently to the vendor and the customer. "To the vendor, the cloud offers near-infinite expandability with nearly no capex (capital expenditure), with no servers to buy, only those to rent. And that's something s/he can pass on to the customer, thereby turning a one-time purchase on their side into a Revenue Expense (subscriptions)," Mandyam says.

"Further, customers get the significant benefit of very secure data centres optimised for worldwide access, both of which are very important regardless of the solution that the



"It is a win for small businesses who now have access to the same software"

Sahil Parikh, Co-founder, Deskaway

customer buys," he adds.

Sahil Parikh, Co-founder of Deskaway, a monthly subscription-based online team and project collaboration app, says the future of cloud computing remains very bright since it brings in cost savings, ease of use, no setup and less overheads in terms of server infrastructure, etc. "It is a win for small businesses that now have access to the same software that large companies enjoyed for years," Parikh says.

The key benefits of cloud are as follows:

- **Easy and quick provisioning:** One doesn't have to go through the process of buying hardware/software and integration. The cloud service provider takes care of the infrastructure.
- **Easy to scale up:** Whether the customer needs to add users or more compute resources, it is available on demand.
- **Pay as you use:** Cloud services can be upscaled or down-

scaled as per need, and hence, customer pays for the usage level. In case of traditional setup, the fixed cost stays irrespective of usage.

- **IT cost effective:** As customers get the benefit of sharing of computer resources and infrastructure and application management resources.
- It's an opex model vs. capex in traditional way of things.
- **Device and location independence:** As the infrastructure is off-site and accessed via the Internet, users can connect from anywhere.
- **Reliability:** With the use of multiple redundant sites, cloud computing becomes suitable for business continuity and disaster recovery.

Cloud's role in SCM

Across all industries and regardless of company size, steep prices and outdated architecture of traditional SCM software have disappointed supply chain executives.

Due to the limitation of money and manpower resources, many companies are showing interest in having a platform which creates a collaborative and flexible supply chain. Cloud computing comes here as a game-changer for the SCM world.

"I think the potential (of using cloud computing) is tremendous in supply-side solutions, but I don't know if there are enough models yet in the marketplace to call 'penetrated' to any degree. SCM is best done on the cloud because a key issue - good SCM involves multiple players in multiple supplier organisations. And most players in India can access a cloud-based solution from everywhere, be it their shop floors or their corporate offices," Mandyam says.

With a SaaS solution, companies can take their IT infrastructure all the way from their suppliers to their clients in

Cloud computing has set out to change the way we use computer technology at work

one seamless system. "The value here is not just the fact that there is universal access - that can be done with just good integration across systems. The value is that, with one system, data can be aggregated, sliced and diced in unforeseen ways by the owner of this network of providers - the SaaS customer," Mandyam explains.

Mishra agrees. "SaaS ensures uniformity across participants of SCM solutions and also makes it easy to bring/remove a participant into/from supply chain. It also makes the access independent of location, allowing integration of remote location suppliers."

Elasticity benefit

He, however, points out that the penetration is very level. "Although cloud makes it easier for components in supply chain management to integrate, adoption will take time as these need to agree on common usage

platform." If the industry consolidates on a few SaaS application with interoperability amongst these, it will greatly help supply chain management, he opines.

Another advantage the cloud brings in the supply chain is that of elasticity and flexibility.

A supply chain community is dynamic and complex, always changing with the mix of products, processes and geographies and traditional SCM systems lack the flexibility to dynamically scale computing infrastructure to meet the ebb and flow of supply chain community demands. But SCM in the cloud matches the continuous change in supply chain activity, enabling users to effectively meet both the changing shape of a supply chain network and the volume of activity.

The security issue

Perhaps the biggest challenge that cloud computing faces is that of security. According to Gartner, the analyst firm, cloud computing is fraught with security risks such as data integrity, recovery, privacy and an evaluation of legal issues in areas such as e-discovery, regulatory compliance and auditing.

"Personally, I believe that security being less on the cloud is a myth. In fact, cloud providers have much better security than most large-scale IT shops. That's because security is a life-and-death issue for a cloud or SaaS provider, while it is an afterthought in most IT shops," Mandyam says.

"Cloud setup is as secure as running a dedicated server. One has to take same precautions in terms of firewalling, ID/IPS, real-time network attack monitoring and VAPT," Mishra points.

Conclusion

For supply chains to operate effectively and efficiently, a real-time exchange of knowledge and the ability to collaborate with external and internal partners - manufacturers, customers, logistics operators - to manage events in real-time is essential. However, this has been difficult to achieve until now. The Cloud brings this capability without capital expenditure and with costs related to the level of business you are conducting. Moreover, in today's environment of multinational, multi-enterprise community relationships, traditional SCM will have to make way for cloud-based supply chain strategies. ■

THE COMMON THREAD

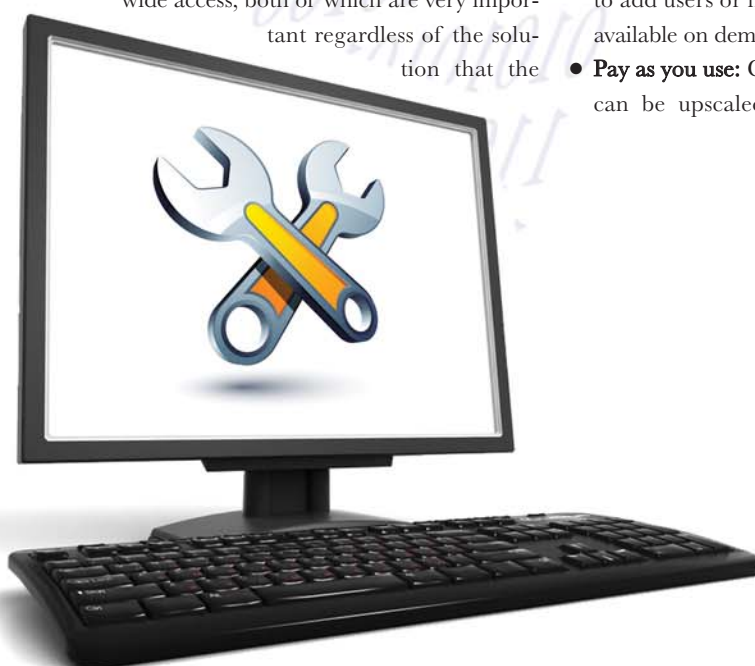
The dynamics of supply chain and cloud computing share some common characteristics. As a result, there are many reasons why the concept of supply chain in the cloud makes so much sense:

- **Multienterprise:** Supply chains today are multienterprise, with companies relying on trading partners for product design, contract manufacturing and distribution. Cloud-based applications also utilise shared infrastructure that allows multiple companies to use processes and technology.
- **Collaborative and information driven:** Customers expect improved collaboration with their trading partners to help speed time-to-market, reduce operating costs and improve customer experience. Cloud applications, too, are designed with collaboration in mind, providing centralised access to information and delivering a user experience that fosters strong community development.
- **Rapid response:** A primary goal of this collaboration among trading partners is to support a faster and more profitable response to changing customer demand - a fundamental tenet of demand-driven supply network (DDSN) vision. The cloud is also defined by its dynamic, flexible nature, allowing customers to scale or contract usage based on changing demand.

THE POTENTIAL HURDLES

While the two concepts seem a good match, there are some issues that need to be addressed:

- **Security concerns:** Although the concerns on security in the cloud are better understood than a few years ago, the challenges of protecting data outside an organisation's firewall remain and need to be mitigated. These fundamental challenges can be compounded by intellectual property (IP) protection and differing data privacy regulations around the world.
- **Participant inequality:** The concept of every supply chain participant coming to a central location to collaborate and conduct commerce sounds nice but is often unrealistic. Different participants wield different levels of power which affect the terms of collaboration and interaction. Bringing the supply chain in the cloud means a high level of flexibility in order to support various models, such as centralised or associated.
- **Master data management:** Companies often struggle with managing the master data challenges, a problem which is only compounded as more information is shared across trading partners. Rather than thinking and planning for each in silos, companies will have to make their integration strategies more holistic, including applications, data and processes.



UNDER THE WEATHER

A number of SMEs turn sick facing lack of credit or proper technological know-how. And while there is enough governmental assistance, it fails to encompass this sector. *Fasttrack* explores what ails the SME sector

SHEFALI THAPLIYAL

Despite being an SME-driven nation, India has paid very little attention to this sector's mode of development. Faced with innumerable challenges, a number of SMEs fall sick and face untimely death. According to RBI's Working Group on Rehabilitation of sick SMEs' report, the number of sick units stood close to 1.5 lakh in 2008. Out of this, only 2-3 per cent of sick units are nursed due to unviability and lack of availability of additional contribution of the owner.

There are several reasons why an SME turns sick. The lack of timely, affordable and adequate institutional credit is perhaps the biggest reason. "In addition, poor disclosure norms, low technology, sizeable funding through loans from close quarters, delayed payment of their receivables by large corporates, the intention to not build capacity to reduce fixed cost and improve competitiveness also turn a unit sick," says Jyotirmoy Jain, Adviser, Banking and Finance, Associated Chambers of Commerce and Industry (ASSOCHAM).

Prone to sickness

"Majority of the units operate from non-conformed areas and face wrath of inspectors on account of non-compliance of statutory requirements. Since they work under unorganised sector largely, the benefit of various government incentives, assistance and concessions are seldom known to them, with the result they turn sick at the slightest change in government policy," Jain says. In the absence of any exit policy or insolvency provisions, the SMEs face recovery proceedings from banks and financial institutions upon default or turning NPA (Non Performing Asset).

As large number of SMEs are unregistered and operate in very closed environment, not disclosing the information on basic financial indicators, they are unable to convince the financial institutions and

are, therefore, deprived of assistance they are entitled to.

With over 13 million SMEs providing employment to over 42 million people, their role in driving the country's economy forward is undisputable. "The issue of sick SMEs is very serious as it entails national waste of scarce economic resources," Jain stresses.

ASSOCHAM recently carried out a study titled 'SMEs: Finance with Governance,' where it indicated that 74 per cent of sick SMEs in the country attribute their sickness and lower capacity utilisation to low availability of funds and 92 per cent of them are still dependent on personal and family savings.

The main findings of the study are:

- Large number of SMEs are capital challenged.
- Timely and affordable finance at affordable terms with limited periodical reporting can solve large number of sicknesses.
- The IPR are seldom registered with the result they lose valuable designs, processes.
- Lack of awareness of government initiatives, schemes.
- Sick units are seldom nursed or rehabilitated due to stringent norms.
- SMEs face several regulatory, statutory and tax authorities — cost of compliance is large.
- SMEs still have a mindset not to disclose actual financial results and wish to continue within the exempted benchmarks of excise or tax.
- Fifty per cent of the SMEs die of delayed or unduly delayed payment by large corporates.
- Lack of institutional support or access to capital markets for risk capital or equity.

Bridging the gap

Despite very bold steps taken by government, the results are still not visible. The government has established a full-fledged Ministry of MSME, which offer various subsidies and schemes to the sector. "A lot of work has been done in this direction and looking at the size of the MSME sector, efforts are being

made by agencies such as SIDBI, NSIC, Development Commissioner, etc. However, these schemes still need to be borrower-friendly and easy to handle," Jain says, suggesting there is a strong need to sensitise this sector with large awareness programmes in rural areas, small cities as well as in cities. "The change in mindset also needs to be quickened to empower them to the need of being creative and competitive," he points out.

Under-utilised capabilities

Another crucial point the study highlights is that most SMEs operate at close to 70 per cent capacity utilisation due to shortage of funds. The study suggests the SMEs can provide employment to up to 100 million if their capacity utilisation is enhanced to over 90 per cent with sufficient availability of credit and technological support.

But the question one may ask is why is there a shortage of funds despite the many government and bank incentives?

Jain says the style of functioning is "very informal" in SMEs — such as lack of record keeping, sales without recording, frequent diversion of funds for unapproved purposes, non-disclosure of correct production records, no distinction between owner and management, etc., with the result that governance levels are highly insufficient. "All these factors do not create confidence among the lenders to extend adequate and timely credit."

Record keeping is a poor aspect, which makes it difficult to determine the right need-based finance for them. "A large number of SMEs operate as proprietorship and partnership firms which are not regulated and are vulnerable to shutdown without any public notice, which is very risky. All government assistance comes with a standard level of disclosures and governance. This is a lacking factor," Jain says.

SMEs are the backbone of our nation. And if we are to progress, the sick SMEs need to be nursed back to health while ensuring complete support from the government and financial institutions. ■

Seventy-four per cent of the sick SMEs attribute their sickness to the low availability of funds

THE 360-DEGREE APPROACH

India's biggest steel conglomerate essentially set out as a manufacturer of steel but over the years has branched out into a multitude of verticals that today defines the group as a divergent success story

SHEFALI THAPLIYAL

Jindal Stainless Limited (JSL), part of the O. P. Jindal Group, has been consciously diversifying into business verticals in tandem with its strategic growth plans both in domestic as well as international markets. Calling it "a natural progression," the company today runs operations in energy, mines & minerals, ferro alloys, precision strips, architectural applications, public infrastructure and lifestyle.

"In this era of liberalisation and open market, we at JSL always look for value addition, forward integration and development of downstream industry, etc.," says a company spokesperson.

Lifestyle innovation

The driving force behind JSL has been to turn steel into one of the most commonly used materials in every sphere.

"Our concern is about finding new and innovative use of this material and hence, we have created lifestyle products entity under the brand name of Art d'inox and encouraged the use of steel in architecture and construction sector," the spokesperson says, adding, "these divisions were created not so much as profit centres but for promotion and use of stainless steel as material of choice."

JSL entered the retailing domain with its lifestyle brand Art d'inox, which means "the art of stainless steel". "Art d'inox has been set up with the objective of creating exclusive stainless steel lifestyle products, which are synonymous with quality, beauty and functionality," the spokesperson says. The range encompasses tableware, serving ware, gifts, and home & office accessories. Art d'inox has 11 exclusive boutiques across the country and over 300 shop-in-shop retail outlets.

Assorted architectural products

JSL entered the architectural space with its brand line 'arc' under the Jindal Architecture Ltd.



(JAL). "It has taken the initiative to provide technical solutions and promote stainless steel products to cater to the emerging markets of stainless steel for architecture, building and construction in India," the spokesperson says of JAL.

Arc offers an entire range of products and solutions including modular kitchens, home furniture, café furniture, office furniture, school furniture, garden furniture, garden lights, doors and windows, SS gates, railings, SS chairs and benches.

However, compared to its other mainstream operations, the stainless steel used by its lifestyle, Arc and retail products is below 5 per cent of JSL's total production.

Apart from retailing and architectural designing, JSL has also ventured into public infrastructure and outdoor media through its brand 'Parivartan'. "The ventures are set to add a new dimension to urban landscaping and infrastructure," the spokesperson says, adding "exploring new horizons is JSL's way of contributing towards global modernisation and developmental initiatives for the people and the region it operates in."

Parivartan has exclusive advertising rights for the DTC Bus Queue Shelters for a period of 10 years in the South and Central zones within Delhi.



Entering power domain

The steel company has also diversified into the power sector and recently signed an MoU with the Orissa government to set up a 1320 MW super critical thermal power plant in Dhenkanal district in Orissa. The plant is expected to create employment opportunities for over 2,500 local persons.

"Our focus at present is the network of mill-owned service centres across India to make our products available at the doorstep of small- and medium-size customers besides OEMs. The main focus is on the Orissa greenfield project and the Stainless Steel Industrial Park next to our plant," the spokesperson says.

For a company which has enjoyed over three decades of supremacy in the stainless steel business, venturing into a new territory to further popularise the use of steel does seem like a natural thing to do. ■



SOCIAL FOCUS

Safexpress is one of the few Indian companies with a strong focus on Corporate Social Responsibility (CSR). The company has a clearly defined CSR philosophy that is well aligned with the nature of its business as well. Safexpress has been associated with NGOs like Goonj, Rotary Club of India and Mahavir International to organize Blood Donation camps, Free Health Check-up Camps, Eye Care Camps, Children's Education, supporting Orphanages and has also helped in village rehabilitation after natural calamities like the Gujarat earthquake, Bihar floods and the Tsunami.



Recently, Safexpress became the first company from India Inc to join the UNICEF Campaign for Polio eradication, extending support for the Polio Eradication Program. Besides this, Safexpress has also partnered with several NGOs to sponsor orphanages and educate people about routine immunization, hygiene and sanitation.

Safexpress has also taken up a cause which is spreading across India's metros and some smaller cities — traffic jams on our roads. Since most of the Supply Chain operations take place on the roads, it is imperative that the flow of goods on our roads happens smoothly at all times. While the Government has already taken some measures to improve the road infrastructure, these measures alone are not enough to improve the traffic conditions on our roads.

Safexpress has taken the lead and conducted a research to understand the root cause of this perennial problem of traffic jams. The objective is to educate people about the causes of jams and motivate them to drive ethically. To spread this noble message far and wide,



Safexpress has also solicited active participation from the community. The campaign has been titled 'Kill the Jam'. Anyone who wants to help decongest Indian roads can join the 'Kill the Jam' campaign by signing up on www.killthejam.com.

In line with its vision of actively contributing towards the growth of the economy through its nation-building services, Safexpress actively supports any initiative which inspires people to work more for the country and economy. NewsX, a leading English news channel in the country, recently organized a panel discussion titled "Brand India: Determining the Future". The discussion involved charting a course for the future and ways to attain Brand leadership for India. Safexpress was the "Supply Chain Partner" for this TV show, which talked about the future of Brand India. In the future too, Safexpress plans to keep supporting such community and nation-building causes.

—Suyash Srivastava

HOLIDAY FOR A LIFETIME

Timeshare vacations may be the new identity of how urban India holidays

SHEFALI THAPLIYAL

The concept of Vacation Ownership – where you can own a week of holiday at a resort for a fixed number of years – is no longer a Western phenomenon. The fact that over 350,000 families in India (according to data from All India Resort Development Association) have bought timeshare holidays is a clear indication that the trend has come home in a big way.

“Vacation Ownership or Timeshare has emerged as the solution for urban families’ holiday needs,” says a spokesperson for Club Mahindra, the flagship brand of Mahindra Holidays, which is the largest Vacation Ownership company in India with more than 100,000 members.

Still evolving

“It is an interesting situation for the Vacation Ownership industry. The market itself is in development stage, the customers’ life style has undergone sea change over the past decade while they remain value conscious. This niche market has become segmented, necessitating a need for differentiated products,” the spokesperson says.

“The growth of the industry was impeded due to lack of committed players and worsened by a stagnant economy. With the entry of long-

The future of Vacation Ownership is extremely bright in India

term players in the mid ‘90s, the industry took firm roots in the country. There has been no looking back since then,” says B.S. Rathor, spokesperson for AIRDA, a self-regulatory body on Timeshare Vacations. He adds that being a relatively new concept the Indian market share of the global business – estimated at \$13 billion – is quite insignificant.

“Today’s Timeshare vacations are about flexibility and affordable luxury vacations. When you own, you can experience anything from chain rattling Scottish castles to the sun drenched beaches of Hawaii and Mexico and resorts set in coffee plantations in South India,” Rathor says.

The fringes

The advantages of owning a vacation are

obvious. “Vacation ownership model provides insulation against the price rise due to inflation. According to a study conducted by Mahindra Holidays, it was found that customers break even just after six years of investing in vacation ownership,” the Club Mahindra spokesperson says.

Apart from the cost benefit, the holiday owner gets superior accommodation (the resorts are among the best in class), finds security of ownership and, thus, peace of mind; and is able to exchange the week for any other time in the year as well as place.

Operating on the golden rule of greater consumer satisfaction leading to greater profits, resort developers are continuously developing the Vacation Ownership Industry, delighting the consumers with high benchmarks of overall excellence, quality, unique choice of product packages in F&B, entertainment, leisure activities and lifestyle experiences. The resort companies ensure their guests are cared for 24X7 without infringing on their privacy.

Immense potential

“Vacation Ownership will be a key driver of domestic tourism as it grows to realise its full potential. Imagine creating a holiday infrastructure for nearly 500 million domestic tourists that will meet their needs and aspirations,” Rathor says. One thing both Rathor and Club Mahindra agree upon is that Timeshare holidays are going to be embraced in a big way.

TIMESHARE TIDBITS

The term ‘Timeshare’ was originally created in Europe in the ‘60s when a ski resort developer in the French Alps encouraged his guests to “stop renting a room” and instead “buy the hotel”. Developers worldwide soon embraced the concept, boosting sales of condominium units at a time when the resort industry was depressed.

In India, the investments in the Timeshare industry are estimated around \$250 million. There are around 45 players – large and small – operating around 80 resorts in popular tourist destinations.

INDIA: *45 Timeshare companies, 80 resorts
*350,000 Timeshare memberships
*5,000 units *Investments of \$250 million
*Growth rate of +15% CAGR since 1998

GLOBAL: *5500 resorts in 90 countries
*7 million owners holding 11 million weeks
*Industry presence in more than 200 countries.
(Source: AIRDA)

“The future of vacation ownership is extremely bright in India with a huge unexplored prospective market. Presently there are about 350,000 households owning timeshare and this figure has been increasing at a CAGR of 15-20 per cent over the past few years,” Rathor informs.

So, next time you and your family decide to take a vacation, think about owning one! ■

Fastrack is an award-winning quarterly magazine from Safexpress – ‘Knowledge Leader’ as well as ‘Market Leader’ of the Indian Supply Chain & Logistics industry. The magazine provides keen insights into Supply Chain practices and Management concepts, along with specialised and well-researched content on the latest trends in the economy. **Fastrack** has been reaching out to the top CXOs of India Inc for over a decade. Please do write to us with your views on our magazine at fastrack@safexpress.com

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