BUSINESS DEVELOPMENT SERVICES FOR SMALL SCALE ENTERPRISES IN INDIA: A CASE STUDY OF HYDERABAD, ANDHRA PRADESH

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Summary

This study of the markets for business development services of small-scale enterprise (BDS for SSE) was undertaken at the behest of the DFIDI. The study involved structured interaction with 90 SSE and a dozen BDS providers respectively, around the city of Hyderabad. The SSE respondents were chosen from four sectors - Pharmaceuticals, Computers, Light Engineering and Food.

The study on the demand side finds that SSE seek two basic types of support services from external service providers. The study classified the BDS services into two categories. The ***"transactions related services"*** refers to such things as assistance in keeping accounts or labour records, filing of returns, complying with regulations etc, which are time bound and rigid problems/issues where outcomes are more tangible and measurable. The ***"strategic services"*** refers to non-immediate issues that would have lasting and huge impact on the future of the business of the SSE.

It was found that the ***transaction related services*** being provided by subject matter specialists are used more often. But these specialists may not restrict their services to the relevant transactions. Chartered Accountants as a category of BDS providers straddle both types of services. They manage accounts, create records, file returns, fix income tax or sales tax problems, prepare project reports, negotiate loans, help in capital structure of the unit and even source other BDS providers. This position is unique to this category of BDS providers and has arisen because the units trust - as they must - them and usually have a long-standing relationship with them.

SSE usually defer hiring BDS providers offering ***strategic services*** for one of the three reasons:

- they think they do not get specific solutions from the BDS providers;
- they think that the time and/or money required for using the services can always help them to manage their current business better or more profitably and
- they hold the BDS provider in "awe" due to the latter's superior manners, high sounding language and fees is perceived to be large.

As a result those of the SSE who realise they need strategic services try to make do with informal and patchy discussions with friends, business associates or others. The study did discover that market compulsions have led to emergence of propaganda-cum-distribution consultants - a widely used service in the Pharmaceutical sector. The study also discovered two other instances of client-pull. The first instance of client-pull is due to introduction of MODVAT where the clients preferred SSE paying excise duty and thereby breaking the mindset of being out of excisable limit. The second instance of client-pull is of ISO certification where it made sense for the larger ISO units to source material from ancillaries that are ISO certified. Both these opened markets for the BDS providers. An additional factor is an element of subsidy in the solar-photovoltaics sector and in ISO certification that created a demand for professional services.

On the supply side, the study finds that most BDS providers work with a range of clients. Even the SSE they work with are the "bigger and more alert SSE". Even the transaction related service providers like to work with a range of clients that includes non-SSE. The perception is that SSE seek only patchy solutions in case of breakdown and do not maintain a relationship. They also make very miserly paymasters. The BDS providers in strategic services feel that there is a yawning gap between the SSE requisition of services and what they need. Most of the SSE are not aware of the contours of the problems they will face. Some of them also feel that SSE wish to revel in their perceived omniscience and try to make the BDS provider to act as a hey-you for mere implementation of ideas.

The study concludes that at this stage it is not possible to clearly define or measure the impact of BDS. But the most pressing need is to create an awareness among the SSE that they need BDS beyond mere transaction related services due to increasing complexity of globalised business, and demonstrate that these services might pay for themselves many times over. The donors could possibly work towards this through industry associations and community organisations and may consider part subsidising cost of BDS providers channelled through this route.

1.0 Introduction:

It is believed that private sector Business Development Services (BDS) have significant and positive contribution to the growth and health of the small-scale enterprises (SSE). Using professional business development services would help them to access better technology, finance and infrastructure and help the enterprises to manage their business more successfully and efficiently. In order to understand what the business development service (BDS) providers offer and what the small enterprises demand, the Department for International Development India (DFIDI) invited two agencies to undertake a case study of private BDS markets for SSEs. The studies are being carried out in two cities of India - Calcutta and Hyderabad - in two of the focus states of DFIDI. This report is based on the study carried out in Hyderabad, Andhra Pradesh.

We have started the study with our initial position based on a sustained but unstructured observation of the Indian SSE. The initial position is that a significant proportion of small-scale enterprises in India need, but fail to demand business development services. Therefore, our initial hypothesis is that there is an insufficient demand for business development services. Particularly there would be insufficient demand on services that focus on areas other than managing regulations, getting loans sanctioned or improving technical parameters of the manufacturing process and hence a full fledged BDS market for SSE does not exist in the private sector in India.

Given the initial position, the main objective of the study was to increase our understanding of the private Business Development Services market for SSE. We have focussed on the following questions:

- In what specific areas and functions does SSE need inputs for them to grow and stay healthy? How and from whom does SSE obtain these services currently?
- To what extent does the SSE obtain relevant and useful inputs from the providers of BDS? In the opinion of SSE are these inputs provided at the right prices?
- How can one characterise the BDS market as it exists today in India?
- How can the impact of BDS providers on SSE, if any, be measured?
- In what manner can BDS market for SSE be strengthened and whether donors can assist in this process.

1.1 The Setting:

The state of Andhra Pradesh has a population of around 73 million, with 73% of its population residing in rural areas. Small-scale industries form a significant part of Andhra Pradesh's economy. This sector contributes around 6% of the Gross State Domestic Product and employs around 2.5 lakh people. The AP Small Scale Industries database lists about 5500 small-scale units across the state. It is likely that a large number of small industries – particularly in the software sector - are not registered with the SSI database and therefore the number is likely to be much higher. A large number of them are spread out around the city of Hyderabad in the districts of Rangareddy, Medak and Nalgonda. There are around 18 small industries association in the city representing the various small-scale industrial estates spread around the city.

There has been a great deal of state support for the small industries sector. There have been several state-sponsored organisations and para-statal organisations working exclusively for the small industries sector. Hyderabad not only has SETWIN, which trains individuals to seek self-employment and promote entrepreneurship, but several other organisations servicing the small industry. SETWIN not only has done training programmes in the automobile service sector, but of late has been deeply into software training as well. Apart from SETWIN we have several other institutions such as Small Industries Service Institute (SISI), Andhra Pradesh Industrial and Technical Consultancy Organisation (APITCO) and other such institutions. All these organisations have been providing support for the small-scale sector in Hyderabad and Andhra Pradesh.

There are a large number of service providers in and around Hyderabad catering to various segments of the industry. Since the business development services market is not very organised it is difficult to obtain data on the numbers and the size of the market. Roughly the services sector as a whole accounts for 43% of the State GDP and 20% of the workforce. It is also envisaged that in future agriculture and industry would be in a position to account for only 43% of the new jobs to be created. Obviously, there is bound to be a good amount of jobs to be created in the services sector and hopefully BDS providers should also be in a position to take a share in this cake.

In the course of the study we found that the lower end of the service providers typically tend to provide services to the small industries. This might be largely driven by the nature of the problems faced by the lower end of the small industry. Affordability and need for these services would also govern how the services market has been responding to the small industries. However, there are a couple of very good examples where the business development service providers seem to be playing a large role in helping the small industry out. One such example is in the Pharmaceutical industry, about which we will deal in greater detail later.

Several organisations promoted by the state have effectively worked in the development of small industries. However, it appears from the study that they do not normally translate into effective demand for more services essentially because the small industrialists tend to get bogged with day to day transactions and short-term survival related problems.

The plans of the government indicate that there will be an increased thrust on the small industries in future as well. The Vision 2020 document for the state envisages a large role for small industries in the next two decades. While the document talks about the renewed focus on the Pharmaceutical industry, it also talks about the other sectors. This plan involves building infrastructure, knowledge, marketing and other facilities. Apart from the Pharmaceutical industry, there is great emphasis on other sectors where the small industry is to be fostered and supported. The document clearly identifies small services sector as a thrust area for the overall development of the state. The document also lists out the various steps to be taken to ensure that both the business development services sector and the policy environment is favourable for small industries to prosper.

Given the overall policy of the government and the thrust on small industries, this study undertaken at the behest of DFIDI is not only timely, but also very relevant in the state of Andhra Pradesh.

2.0 Methodology:

2.1 Structure

The study was undertaken in three modules. The first module used unstructured but detailed informal discussions with owner-managers of two small enterprises. Based on the discussions an interview schedule was prepared to administer on a larger sample. This schedule was shared with the EDII team as well and based on the discussions, was fine-tuned. In the second module, four field investigators were used to conduct interviews as per the finalised schedule. A total of 90 interviews were conducted in four different sectors. In the third module, the BDS providers were interviewed in order to understand that segment of the market.

2.1.1 Small Scale Enterprises - Sample and Sectors:

We have selected the sectors on a purposive basis. Pharmaceutical sector is by far the most significant sectors in and around Hyderabad in terms of numbers. Roughly one third of the country's bulk drugs is produced in and around Hyderabad (Vision 2020 Document, GOAP, 1999)[1]. In addition to the fact that there are numbers, there are also two other considerations that led us to look at the Pharmaceutical industry. Firstly, we have live examples of units that really started small and have now become large players emerging out of Hyderabad. We could name Dr.Reddy's labs and Aurobindo Pharma as possible role models for small Pharmaceutical Units. Secondly, with the

[1] Government of Andhra Pradesh (1999): Vision 2020, Hyderabad: Govt. of AP

increasing tightening of patent norms, small Pharmaceutical units are going to be affected in a very significant manner. We wanted to examine if small units were responding to large macro level regime changes and if there was a role for BDS providers in this segment. Data was collected from a total of 21 Pharmaceutical units.

The second sector we studied was the light engineering sector. If we were going to address the issue of small industry, no study would be complete without looking at the light engineering sector. Particularly with several industrial units around Hyderabad, there is a scope for a large number of ancillaries. The growth of a unit from an ancillary to an independent unit was worth a look – if at all it happened. It was also necessary to understand the type of relations that the ancillary had with the main unit and if there was any scope for BDS providers in this area. We had a sample of 24 units from this sector.

The third sector we studied was of Food. Though this might not be a very significant sector in terms of numbers and turnovers, the sector offers scope for getting into the rough and tumble of the retail market very early in the life of a small unit. It also offers tremendous scope for potential BDS providers in terms of branding, logistics, advertising, packing and promotion. Unlike other sectors, the threshold barrier for entry is relatively low and potential for growth could be high. With the coming of the supermarket culture in Hyderabad in the past 4 to 5 years it was our premise that smaller food units would have cropped up. However, we did not consciously look at start-up units. Instead we looked at the food sector as a whole - including some larger ones. These included small condiment suppliers, mineral water and soda makers, ice cream units, bakery product makers and some units in the milk sector. We have a total of 24 units from the food sector in this study.

The fourth sector we picked up was computers. In this sector, we consciously avoided training institutes. We focussed on SSE providing hardware, maintenance and software development services – including web-page designing. This sector was somewhat overlapping in the sense they were not only SSE but BDS providers as well. We shall analyse their role in detail in the later sections. We had a total of 21 units from this sector.

Data was collected using an interview schedule with ample scope for quantification. Apart from this qualitative data was also collected which we will try to capture in this report. Data was collected using four field investigators who were trained from the initial stages. They were also involved in refining the questionnaire. To ensure that sector-wise qualitative data is not lost, we personally administered around 20% of the questionnaires in each sector to get an overview of the demand side.

2.2.1 BDS Providers - Sample:

A total of 11 BDS providers were interviewed. Though there was a checklist of questions to be asked, all the interviews were conducted in an informal open-ended format. Since we were restricting ourselves to interviewing one or two BDS providers from each service offered and each of these services were exclusive in nature there was no point in fixing a format for the interviews in this sector. The findings are reported in the form of caselets in the report.

3.0 Findings:

3.1 Profile of the Units Studied:

We studied the lower end of the small scale units with an average capital employed of less than Rs.5 million per unit and an average turnover of less than Rs.15 million. There was no conscious effort to include "tiny" units or sub-classify the firms into small and large within the sample. Table 1 below gives the sector-wise profile of the units studied. More than half of the units had never taken a term loan from a formal lending institution. A third of the firms were incorporated as companies (4 public companies, 26 private companies) and 60 firms operated as proprietorships or partnerships.

Table 1:
Profile of the Units
(Rs. In million)

	Average Capital Employed	Average Working Capital	Average turnover	Average Number of employees	Legal Status (nos)	
					SoleProp/ Partnrship	Company
Pharmaceuticals	3.9	4.0	22.7	52	6	15
Computers	1.6	0.6	6.5	12	15	6
Food	3.1	1.5	12.1	30	17	7
Engineering	1.6	0.6	3.0	18	22	2
All	3.3	1.9	11.4	27	60	30

3.2 Profile of the Entrepreneurs:

A third of (29 of 90) the entrepreneurs were non-graduates by formal educational qualifications. A good number (64 of 90) were first generation entrepreneurs while the rest had a business background. All the units were largely run by owner-entrepreneurs – it was only in the Pharmaceutical sector that we found that the number of decision-making senior employees to be more than 2 on an average. In all other sectors, senior employees with decision-making powers were more an exception than a rule. The owner-entrepreneurs themselves usually took several of the day to day and strategic decisions. In the sample there was a lone woman entrepreneur in the food sector. All other entrepreneurs were men. About half of the entrepreneurs who have entered the business in the last 5 years have started in the computer sector. Table 2 below gives the details.

Table-2
Profile of the Entrepreneurs

Details	Avg Age	Background		Education				Years in Business			
		Bus nss	I st Gen	Tech Grad	Fince Grad	Other Grad	Non-Grad	>20 yrs	10-20 yrs	5-10 yrs	<5 yrs
Pharma	42	8	13	11	4	6	0	4	8	6	3
Computer	34	5	16	7	6	3	5	0	5	6	10
Food	45	11	13	6	4	7	7	7	8	5	4
Engineering	44	2	22	7	0	0	17	8	5	8	3
All	41	26	64	31	14	16	29	19	26	25	20

3.3 Demand for BDS by SSE:

While five categories of BDS was identified initially, we found that we could really classify BDS into two broad and distinct categories - services related to transactions and processing of transactions and services related to strategic initiatives. One of the BDS providers- Sathguru Mangement Consultants - brilliantly did this categorisation and we find that the data seems to support this categorisation. In both the categories, the SSE largely tended to try and find a solution by themselves rather than seek outside help.

3.3.1 Demand for transactions based BDS:

The categorisation transaction based BDS largely relates to 8 categories of services on which we sought the response of the SSE. The first four were somewhat universal in nature relating to the maintenance of accounts, labour, excise and sales tax. The later four related to the fact that some manufacturing facility existed - pollution control, food and drug administration, factories, and boilers and other such activities - purely related to dealing with legislative requirements.

Of the total sample **more than half of the respondents did not seek any outside help** even for these transaction related issues - most of them choosing to maintain their own records, file their own returns and solve their own problems (with some informal help from contacts). It was only in case of problems with accounts that a significant number of units sought help to sort out their problems - usually approaching their chartered accountants.

Table 3 gives the sector-wise details of transactions based BDS which was universal in nature. But the very interesting part is that that around 20% of the SSE sought external help for even maintaining their records. Sector-wise, this response came overwhelmingly from the Engineering units (see highlighted figures in Table-3). This was because the units we looked at in this sector were really small in comparison to the other sectors in terms of capital employed and turnovers. This sector also employed the least number of people on an average (see Table 1). One other reason might be relating to the formal educational qualifications of the promoters. Of the total 29 non-graduates who were promoters, 17 were from the Engineering sector (Table 2). Additionally the number of transactions compared to the other sectors would have been significantly lesser and therefore it possibly would not make sense to hire a full time transaction processing person on the rolls.

Table-3
Number of respondents seeking BDS in Transaction related issues

Details	Accounts			Labour Law related			Central Excise			Sales Tax		
	FI	IEH	FE	FI	IEH	FE	FI	IEH	FE	FI	IEH	FE
Pharma	7	14	0	13	7	1	17	3	1	14	7	0
Computer	8	12	1	19	2	0	20	1	0	14	6	1
Food	14	7	3	15	4	5	22	1	1	16	3	5
Engineering	5	5	14	8	5	11	14	1	9	9	2	13
All	34	38	18	55	18	17	73	6	11	53	18	19

FI: Fully internally maintained. IEH: Internally maintained, external help sought in case of problems, FE: Fully maintained by external retained help.

On the other issues relating to pollution control and other legislative requirements, the small industries either did not fall under the relevant law or managed the issues from internal resources. In case of units falling under the legislative provisions the SSE largely managed their affairs in active collaboration with the lower employees of the respective departments - getting them to maintain the records in order for a small fee. These included the factories, boilers and other departments where the significant issue involved was that of periodic inspection and reporting.

In fact, it emerged in one of our interviews with a BDS provider that SSE tend to seek outside help only in cases where there was an issue of interpretation of the law. This largely related to Excise matters where there was a great scope for interpretation. Even this was getting simpler over time. In case of income tax, the law had become more and more clear. Now with the simplification of policies and procedures and a great amount of consistency and continuity coming in during the last decade, the need for consulting and help from outside had got significantly reduced.

3.3.2 Analysis of Demand for Transaction Related BDS:

In order to understand what triggers hiring of professional BDS providers for transaction related issues we asked the entrepreneurs to tell what had or would trigger hiring of consultant. We also asked them to name the source that helps them to identify such providers and if such providers are hired on a consistent basis. A small number (13 of 90) reported that they would still not hire a BDS provider for any transaction related issue. An overwhelming number (63 of 77) who reported that they would use a BDS provider because of the complexity of the case and a smaller number (14 of 77) reported that they would do so if there were other serious repercussions or if a significant amount was involved. Table-4 gives the details of sector-wise break up of the responses. It can be seen that the responses do not vary widely across sectors. Of the respondents who reported that they would not be hiring BDS providers, about half belonged to the computer sector. In case BDS providers were to be hired, it can be seen that SSE largely depended on friends circle and business circles including industry associations. Pharmaceutical units and Engineering firms were found depending on the business associates/industry associations more than the other two sectors. It is also clear from the following table that at least as far as transactions related BDS is concerned, the providers tend to be used on a consistent basis. This may be interpreted as a general level of satisfaction in the BDS providers in this segment.

Table-4
Trigger for Hiring BDS providers and Sources of Information
(total responses = 90)

Details	Pharma	Computer	Food	Engineering	Total
What triggers hiring a BDS Provider?					
a. Complexity of case	19	14	15	21	69
b. Amount Involved	1	1	3	1	6
c. Serious Repercussions	0	0	2	0	2
d. Would not hire	1	6	4	2	13
Who helps identify the BDS Provider?					
a. Self/ Not applicable	1	7	4	2	14
b. Friends	8	11	13	7	39
c. Family Members/Comnty Ledrs	2	2	2	0	6
d. Business Assoctes/Indstry Assn	9	1	2	11	23
e. Others	1	0	3	4	8
Has the BDS Provider been repeated?					
Yes	19	13	19	15	66
No (includes not hired in the past)	2	8	5	9	24

3.4 Demand for BDS on strategic issues:

The demand for BDS on strategic issues was examined by asking questions on two lines: First, we had an analysis of the current usage of BDS services and then we examined the awareness of availability of the service in the market.

On the usage of services, we had twenty questions on issues that were strategic in nature where the SSE may have had to seek professional help. Through these questions we sought to understand where the entrepreneur consults on taking decisions/support in running the business. Table-5 gives the sector-wise break up of the most significant issues on which the respondents had in fact sought external support.

The twenty questions that were asked could be broadly divided into five categories of issues:

- Production, product design, location of plant, premises
- Marketing, customer identification, segmentation, logistics, packaging, branding, promotion, advertising
- Design of internal operating systems

- Finance - seeking term loans and working capital limits from various sources
- Innovation - looking at new products/new ideas.

Table-5
The Most Significant Issues on Which Strategic BDS was sought
(total responses = 90)

Details	Pharma	Computer	Food	Engineering	Total
Finance					
a. Seeking term loans	7	3	7	11	28
b. Seeking working capital limits	3	2	7	8	20
Marketing					
a. Promotion of products	13	0	3	4	20
b. Advertising of products	2	1	8	7	18
c. Identifying the customer segment	5	3	2	10	20

It can be clearly seen from the table above that the significant areas where external assistance was sought was broadly in two areas - finance and marketing. This was also confirmed by some questions in other parts of the questionnaire - we shall deal with these issues a little later. On most of the other issues the SSE tended to take a decision by them rather than seek outside help.

Let us look at the areas where the SSE sought some help. The most significant area where external help was sought was in seeking term loans and working capital limits from institutions (see Table-5). This function normally involved writing a project proposal including putting up financial projections. In some cases we were informally told that it would also involve re-building the past accounts to seek finances. Normally this service was offered by their own friendly chartered accountant - who helped the enterprises not only in preparing the reports, but quite often getting the loan sanctioned with the help of the manager. The chartered accountant of course charged a nominal amount for providing this service. It is to be noted here that the external help was not sought in generating informal finances or finances from institutions like Non-Banking Finance Companies (NBFCs) or Chitfunds (only 2 sought help in generating resources from informal sources and 7 in getting funds from NBFCs/Chit funds). This essentially means that even in services that might be strategic in nature (capital structuring) the help was sought for transactions part of it - rather than involve the BDS provider in evolving the overall capital structure.

The next significant area where a small number sought external help was in seeking support for marketing related activities (promotion, advertisement, branding and pricing). Even this, in most cases was sought from business associates, friends and customers. For instance, the printer or the Desktop Publishing (DTP) firm usually doubled up for design of advertisement. The business

Pro-active Financiers: Creating a demand for BDS

One of the engineering units we studied had a phenomenal growth in the last 5 years. The unit manufactures solar panels and devices. Apart from the vision of the most important feature in this business is the amount of institutional support available in this sector. For the unit, getting finance was somewhat simple once they had a good feasibility report. It was important to have a credible feasibility report before institutions funded the unit. The feasibility report was almost as significant an investment by the promoter as the plant and machinery itself. He therefore got one of the top-notch consulting firms of the country to do it.

Ever since the unit has been set up, they have got tremendous amount of support from institutions. Now, they do not hesitate to seek professional help in whatever areas they need support, not restricting themselves to areas where subsidies are available. They now recognise the value of external professional input, apart from the comforting fact that "grant-type" funding is available for some activities. This great impetus and initial thrust that the unit has got from the institutional sources has helped it to grow at a phenomenal rate to achieve a Rs.100 million turnover.

associates like the distributors or customers helped them in determining the prices or promotion strategies. When it came to the question of customer identification (the last issue on Table-5) the support for the SSE came from friends, community leaders and family on an informal basis rather than from a professional source.

However, it is to be noted that the numbers seeking professional help on strategic issues were far lesser than external support sought in transaction related matters. There is also a pattern in seeking support from external resources when we look at the different sectors. In the light engineering sector, most of the time, external support was sought for generating capital - both term loans and working capital limits. Most of the marketing related support was sought by the Pharmaceutical industry this phenomenon largely due to the existence of promotion and distribution consultants specific to this sector - an issue we will deal with in a greater detail later. The support sought by the food industry was divided between marketing, logistics, finance and branding. The computer industry - being service providers themselves, sought very little support for any of the strategic services.

3.4.1 Analysis of the Demand for BDS on Strategic Issues - Awareness:

What could be the reason for such a small number of SSE seeking professional help? We tried to get answers by a two pronged questioning strategy. First was to inquire if they were aware of any such services being offered in the market and if so what they thought of the quality of service and its pricing - was it good value for money. The second aspect that we were trying to find out was as to why they do not go in for a professional BDS provider.

The issues on which we sought responses covered almost all the strategic areas. There were 14 issues on which we sought responses including product design, understanding markets, financial structuring, technology choice, human resource related issues including training services and technical services such in areas such as computerisation and quality assurance. Table-6 gives the sector-wise numbers for the questions on which we had about a third of the respondents saying that they were aware and happy about the quality of the services on offer in the market. The most significant issue here was relating to the conduct of market surveys where more than half appeared to be aware and satisfied.

Table-6
The Most Significant Issues on Which SSE thought Strategic BDS *__was__* available
(total responses = 90)

Details	Pharma	Computer	Food	Engineering	Total
a. Assessing the markets - conducting market surveys	4	4	12	12	32
b. Preparation of project reports	10	3	14	18	45
c. Help in devising capital structure	4	4	11	18	37
d. Help in choice of technology	9	3	9	16	37
e. Help in choice of equipment	9	2	5	13	29
f. Help in computerisation	13	2	6	7	28

In most of the cases, it appears that Food and Engineering sectors were aware and happy about the services available by the BDS providers. While the reason for this is not clear, it might possibly reflect the nature and degree of specialisation involved in the other sectors.

In about a 60% of the cases all the respondents indicated that they were - either not aware of the services being provided - or thought that the services that were available were not of good quality (2 or less on a five-point scale). This clearly indicates that from the demand side, there is little awareness about the possible existence of BDS (Table-6 and 7), and where there is awareness, the perception of quality is very low. Table-6 gives the most significant issues on which the SSE were not aware of anybody in the market providing the services necessary. In case of all other issues, while they were aware of a provider, the perception of quality was very low.

Sector wise, the computer sector seemed to think that BDS providers were not available for product design. In other areas where they thought that they were available, they did not have a good opinion of the quality of service provided. This was possibly because computers being BDS providers themselves, thought that there were no services that catered to their peculiar needs. Even the Pharmaceutical sector thought that apart from computerisation there was not much of a service of reasonable quality available in the market. Again this possibly reflects the specialised nature of the work involved in the Pharmaceutical sector.

Table-7
The Most Significant Issues on Which SSE thought Strategic BDS was *not* available
(total responses = 90)

Details	Pharma	Computer	Food	Engineering	Total
a. Product Design	9	13	16	11	49
b. Business information and other trends	2	5	18	16	41
c. Training	3	3	17	13	36

Engineering and the Food sector seemed to have extreme opinions - either they were aware and satisfied or they were not aware at all. Both the sectors thought that there was no support for product design, business information and training. While one expected the Pharmaceutical sector to seek more information in the trends because of the patent norms being imposed, they seemed to be under the impression that the current technical journals and support they were getting from the market was sufficient.

Across the sectors and segments, data indicates that the SSE do not think that there are good service providers for certain specific segments - advice on technical matters, product design and training seem to be lacking in numbers and quality.

Computer Software: The Case of Trust.

In the process of the study we found a peculiar instance where a first generation entrepreneur had developed computer software that helps the students take competitive examinations to practice on the tests. The software has a question bank, can time the answers, and rank them in order of difficulty and in terms of different sorts of capability sought by the student. This needs a massive distribution channel. The question is can the entrepreneur trust a service provider to find a distribution and marketing channel without running the risk of the CD being duplicated overnight by somebody? How does he ensure that he gets fair returns for the two years of work that he has put in? A very delicate issue indeed - considering that the product took about two years to develop, it can be easily copied and he does not have an established brand or channel to leverage on - at the same time, he desperately needs to depend on the traditional channels.

3.4.2 Analysis of Demand - Why BDS Providers are not Hired:

On the question on why they would not hire a consultant or and external BDS provider - the answers were in two different directions. On one hand the most significant reason was that most of the SSE were cash strapped and could not think of hiring a consultant or BDS provider (28 of 90). On the other, a good number of them (26 out of 90) said that BDS Providers hand out very general solutions and do not have any specific answers to their problems - again indicating either a low opinion of BDS providers or a sense of omniscience. This either reinforces the earlier perception of "awe" - which makes them think that BDS provider is un-affordable or the perception that these providers are not good value for money. However the other two possible answers - that the entrepreneur was too busy to devote time to a BDS provider or that the BDS providers might give away confidential information was not borne out by the data in a significant manner.

A fairly high number (16 of 90) indicated that they just do not need any outside help at all. Unstructured discussions indicated that some of these entrepreneurs just did not want to grow. They were happy and contended with the size they had achieved and were unwilling to take the next step which would lead them towards uncertainty. Table-8 gives the sector-wise break up of responses.

Table-8
Why BDS providers are not hired
(total responses = 90)

Details	Pharma	Computer	Food	Engineering	Total
a. Not necessary, don't want to grow	5	3	5	3	16
b. Can't afford	2	10	7	9	28
c. Too busy, No time	5	2	3	1	11
d. Can't Trust	1	3	3	2	9
e. Solutions general, not specific	8	3	6	9	26
Total	21	21	24	21	90

Sector-wise it can be seen that Pharmaceuticals and Engineering thought that the solutions were too general. Engineering sector thought it was too costly as well. The same was the case with computers - where the response was that they were too cash strapped. Surprisingly the issue of trust has not been borne out by the above data - nor is the issue of time. However, during informal discussions one found that these two issues also seemed to occupy the minds of the SSE.

A computer maintenance SSE indicated that they being a service industry were unwilling to grow beyond a size where they were not sure of the quality of service delivered and the reliability of the client - particularly when payments were involved. So the inherent fear was that of losing control and the fear of entering uncharted territories. This seems to be quite a contradiction - considering that they took the first step of choosing to be entrepreneurs. There were also a small number who never thought of hiring a professional BDS provider for the fear of being ticked off for mistakes or for the fear of being charged a hefty amount. This is what some BDS providers termed as "awe" which they are trying to overcome as a strategy towards creating a market for themselves.

The above analysis is a summary of the articulated need as expressed by the entrepreneurs running SSE. In order to put the demand for services into sharp focus, we did ask the entrepreneurs what was their most pressing need in terms of services at this point in time. Not very surprisingly 34 of the units said that their most important bottleneck at this point in time is marketing. This was overwhelmingly so in case of light engineering (10 units of 24) where there was heavy dependence on a single client and understandably several small industries wanted to look at alternative channels of marketing. The other sectors also saw marketing as the most significant problem. The other issue that was raised by small units was that of finance related matters (18 of 90). We were constantly told that they face problem in convincing the bankers about both term loans and working capital limits. Usually the problem is to do with providing adequate collateral. Even in cases where the SSE have been successful in getting bank finance, they have done so by providing collateral which are unrelated to the business - like the agricultural land or house property of the promoter.

The Mind-set Issue

Apart from the other issues there is an issue pertaining to the mindset of the SSE. An entrepreneur in the Pharmaceutical sector put it very succinctly - " We are constantly dealing with regulatory authorities and small issues of compliance. We constantly encounter problems and most often than not we see that the most effective way of sorting the problem is pay a bribe. Transaction cost wise, it makes more sense than fight out a case. So over a period of time we have learnt to buy short-term patchwork solutions and have never addressed the problem at its root. We just do not trust anybody - because whatever solution we have got - it ultimately boils down to paying a bribe somewhere! If I can do a job of purchasing a solution off the market more effectively than anybody else, then I do not need a service provider for that!"

The sector that articulated finance as a major problem was food (8 of 24). This was particularly so in case of smaller units in the food sector - which really operated almost from the kitchen of the entrepreneur and has grown larger over a period of time.

The software sector had the problem of finance and working capital as well. Though this does not come out loud and clear from the numbers, the informal interactions almost always indicated that their problem was in trying to provide appropriate collateral. This was because in most cases they did not have any assets pertaining to the business to provide as collateral. If the entrepreneur did not happen to have any personal assets or chose not to provide them as collateral, he would hardly get a loan apart from some stray incidents where they had managed to get some small loans under schemes like the Prime Minister's Rozgar Yojana. Several software firms indicated that the venture capital threshold limits was too high and there was no venture capital like finance available in the small sector. The general feeling of people who had approached the venture capital firms was that they were impatient for early results, which goes against the very nature of the business of venture capital providers.

Another area where the SSE thought that they had an immediate problem was in the design of new products (15 of 90). Again the most significant demand for this service coming from the Engineering sector (7 of 24). On an overall analysis it appears that the light engineering sector seems to have got entangled in problems related to marketing - possibly due to dependence on a single client and therefore have never tried to innovate by themselves. Now, when they want to grow, they see either the product design or the marketing as their constraint.

At the same time the SSE do not think that there is such a service available in the market at an affordable price. An overwhelming number (64 of 90) stated that there are no BDS providers to address their most pressing need. This clearly indicates a mismatch between being aware of a BDS provider and actually using the service. When it comes to the BDS provider addressing the most pressing need, many of the SSE feel that a service provider is not available. Of the other 26 who said that there were such services available in the market, another 12 said that the service was wanting in its quality and was also very highly priced. One of the small industrialists went to the extent of telling us that every time he went to a professional he was almost always let down by the quality of output given by the service-provider. Clearly there seems to be a mismatch between the expectations of the services by the SSE and the services provided by the BDS provider.

3.4.3 Analysis of Demand: Ability to pay

While there were questions in the questionnaire that checked if the SSE were willing to pay for the services of a professional the question of ability to pay was not structured into the questionnaire. While the small industries shied away from using professional BDS providers, in almost all the cases where professionals were used there was evidence that the SSE in fact paid the fees. This was particularly true in case of transaction related BDS services. On BDS services on strategic issues, the major problem was whether the entry level fees to be paid to any BDS provider is going to be value-for-money at that level. So in most of the cases they would tend to use the transaction related BDS providers to do the Strategic work also for them, thereby

Willingness to Pay:
The Choice of Survival versus Growth

There is also the problem of day to day survival - one of the computer software developers told in the process of the interview: "I know that I have a problem. I have reached the growth I could have reached on my own steam. I now need to take one large step to grow and I recognise that I need to get somebody to advise me on how to take that step. I keep thinking of getting somebody to advise me on some strategic breakthrough. I think of a going to a consultant to look into my problems and then I re-think, if it costs Rs.10,000 to hire one to advise me, then I may as well upgrade my machine and get some more efficiency into the current system. So the choice is between doing my current business well or thinking about growth. Both never happen simultaneously! As a result, I end up discussing my plans in an informally with several friends and keep getting off-the-cuff ideas. Unfortunately that won't do.

producing sub-optimal results. These BDS providers however would almost always be paid. The typical case was where they used some of their regular service providers to do some additional work for them - like the auditor who helped them to get finances. The mismatch largely seems to be in what could be termed as "value for money".

3.5 How the BDS Market Emerges: The Case of the Propaganda cum Distribution Consultants

There are two or three areas where we see that BDS services get demanded because of policy interventions and inherent subsidies. We saw the case of solar photovoltaics earlier and would be examining the case of ISO certification later. While the above example of policy intervention, the Pharmaceutical industry has in the past decade and a half provided its own example of *swayambhoo* - or self-propagating model of private sector BDS thriving profitably. This model has emerged purely in response to the size of the small pharmaceutical units and their inability to penetrate into the market which is fiercely competitive.

In the early 80s, most of the pharmaceutical units - particularly from the formulation units used to have their own marketing network - individually. Which meant that they would maintain sales staff and representative offices all over the country. Obviously the volumes did not justify having such an elaborate network. There had to be some economies of scale in such operations. Around that time emerged the concept of propaganda-cum-distribution consultants. These consultants take on a set of five or six small pharmaceutical units and undertake to market the entire range of formulations through their own network. The consultants are paid a fixed amount for advising the Pharmaceutical units on market feedback, packing, formulations and other advice they might give. In addition, they are also paid overriding commissions on the sales that they achieve for each of the pharmaceutical units.

While it is said that this concept emerged in Gujarat, it appears that it is very prevalent all over India now. In case of Andhra Pradesh, having so many pharmaceutical units - big and small helped. The fact that one of the largest state-run units in Hyderabad Indian Drugs and Pharmaceuticals Limited (IDPL) went sick unleased a great number of trained and talented manpower into the market. While a large number of them became process consultants for the Pharmaceutical industry, there were a good lot of them who got into distribution as well. Added to this was the fact that several people in the marketing department of large pharmaceutical houses saw the potential and joined the breed of consultants either after retirement or after considerable number of years in service.

These consultants brought with them the knowledge of the pharmaceuticals market and their own past contacts to the small industry, thereby opening up an effective way of tackling markets. Now the consultants undertake the entire range of activities from writing technical brochures, meeting with distributors and appointing dealers, apprising their clients on stock movements and advising them on developments in the market. It is also their responsibility to ensure collections from the dealers. The manufacturer now handles only logistics and takes responsibility for the quality of the drugs.

Typically these consultants take on around 5 to 6 clients with them. It is said that a number larger than that becomes unwieldy. The consultants represent these clients in the different market through their own set of trained medical representatives. Normally there are no conflict of interest issues that seem to emerge, since it is ab-initio clear who the other clients of the consultant are. The consultant finds it convenient to have an array of products with him when he approaches the dealers and doctors - thereby giving them a good choice of products. The consultants also undertake to organise seminars and conferences usually over dinner for the doctors of a particular area when they represent themselves as a consultant of a company and promote products of one company exclusively by turns. Ultimately, the consultant is also interested in spreading his income stream from all the companies that he or she is representing and therefore, it is said that they do justice to all the clients.

The consultants normally do not shuffle around their clients, unless there is a serious issue of quality or the company grows beyond a certain size where they might be in a position to put their own marketing network in place. Even then, usually the consultant is given the right of first refusal to join the services of the company as an employee.

This system has emerged purely in response to the demand for a viable alternative to marketing services needed by the pharmaceutical industry. This structure did not emerge out of any policy initiative of the state or due to any intervention. It was pure economics of the business that dictated the smaller pharmaceutical units to embrace the new system.

Is there any learning from the above example? The most significant learning is that BDS providers seem to emerge on their own when there are significant gaps to be filled up. This channel has emerged purely out of economies of scale. It is our premise that this might not be replicable in all sectors. However, it might be an interesting model to use as a prime mover in sectors which have similar characteristics - limited amount of branding, large and intricate distribution network and similar products to be handled so that the consultant has some generic expertise in the products he or she is handling.

3.6 Looking at the Supply Side: The types of Players in the BDS Market

In order to gain an understanding of the situation from the supply side - that is understanding the SSE segment from the point of view of BDS providers, we talked to a range of these players. The interviews were generally free-flowing and unstructured but necessarily covered aspects which characterised their SSE client segment and how they would see the BDS segment emerging as time goes by.

Apart from the providers interviewed to get an exclusive perspective on SSE, we also talked to some respondents included in the sample of SSE above - particularly in the software sector - to see how their client group is evolving. Presumably a large number of software firms were doing work for establishments which fell into the SSE or the small trade segment.

Most of the BDS providers were contacted through the reference given by the SSE in the process of the data collection. Some of them were contacted through references in the yellow pages and some through personal contacts. We interviewed BDS providers providing audit and accounts support, management consultency, ISO certification services, Design and Technical service providers, Excise consultant, Advertising and marketing service agency, Propaganda and distribution consultants, web service providers and a SSE association. The BDS providers ranged from individuals operating out of their homes to private limited companies. In addition to the above we have also profiled the ongoing experiment going on in Hyderabad to get BDS services across to small businessmen by leaders of their community using professionals.

Across the board, we found that most of the BDS providers do not work exclusively for the small-scale sector. These include small and specialised consultants who work out of their homes. Almost all the BDS providers had a range of clients. The exceptions to this were the propaganda cum distribution consultants in the Pharmaceutical sector, a segment we have profiled earlier and the Andhra Pradesh Industrial and Technical consultency Organisation (APITCO). But even APITCO was doing some consulting for large funding agencies and governments to watch its bottom line.

3.6.1 How do the BDS Providers profile their clients?

Almost across the board all the BDS providers expressed the view that they deal with only a small segment of the SSE market. It was very obvious from our interviews with the management consultants and the chartered accountants that almost all transaction related services were in the clutches of the auditor. Typically auditors were the ones who were trusted with all the information and were usually retained to deal with all regulatory matters including legal, record creation, maintenance and appearance before authorities in case of trouble. In cases that led to complications, it was usually the auditor who referred to an expert from his own contacts.

The overwhelming response from almost all the BDS providers was that the majority of the SSE sought only transaction related consulting and therefore the market they were addressing was a much smaller part of the cake. If any articulated demand beyond transaction based BDS came from the SSE, it was most likely in the knowledge based industry - like solar energy, bio-pharma, and other clients wanting to work in specialised areas. In fact most BDS providers got the upper end of the SSE segment to come to them.

A Mismatch Between what SSE Seek and what they Need

Sathguru Management Consultants do a quarter of their business with SSE. They work with a clear strategy that their revenues have to be telescoped - the fee grows as the ability of the SSE to pay grows. However they are very choosy about their clients. Till now they have worked with around 40 SSE of which 20 no longer remain small. Sathguru would like to take on a client only if they are willing to be a part of the core strategy. Though they have capabilities of transaction related service by virtue of having an audit firm - they never use this as an entry strategy. Sathguru never accepts a one time consulting assignment.

Sathguru thinks that there is a very large mismatch between what SSE seek and what they need. This is the classic problem of mindset. For instance in the Pharmaceutical industry around Hyderabad, there is no sense worry about the new patent regime. All the small units are still bogged down by how to get the drug inspector off their back.

"They are in a sense like the fishermen of Orissa before the Cyclone. They are blissfully unaware of what is going to hit them!"

Most of the BDS providers have also drawn boundaries around themselves. Normally they do not stretch themselves outside this boundary unless there is a perception that the request is serious or comes through known contacts, they normally do not accept such assignments. This largely depends on what the BDS providers want to focus on.

3.6.2 The Developmental Role of BDS Providers

While organisations like Sathguru do take on a developmental role for clients in the upper segment of the SSE by telescoping their fee structure, there are organisations like APITCO which have had the history of working exclusively with small and medium enterprises. APITCO has been existing for more than two decades first as an agency which would help the micro-entrepreneurs in preparing project reports, undertaking market surveys and helping the units to get some finances. Over a period of time the agency has been forced to watch its bottom line and rethink its vision. Now the agency has an alternative approach that is innovative. They continue to work with individual clients in a limited manner providing consulting support for project report preparation and for financial structuring - for which they are usually paid by SIDBI. Beyond this, all additional services provided are charged to the client. This strategy is similar to the telescoping strategy of Sathguru, but more on a one-off basis than as a consistent strategy.

Apart from of focussing on individual clients - they work in some clusters and sectors. Focussing on clusters helps them to set up standards across a large number of small enterprises and addresses the issue of marketing in a much more organised manner. It provides economies of scale for addressing some of the issues. This approach also helps the organisation to look beyond city suburbs and get into rural clusters.

The other strategy of focussing on sectors is largely looking at some select sectors where there is scope for exchange of technology, market information and other aspects through international counterparty negotiations. Here, APITCO concurs with Sathguru that the sector that seems to be opening up for support from such BDS providers are largely knowledge based industries - bio fertilizers, non-conventional energy and software.

If the BDS providers such as Sathguru and APITCO are playing a developmental role - the next question that begs an answer is how are these efforts being compensated? Sathguru has a clear strategy of telescoping the fees while APITCO seems to have adopted the strategy of cross subsidising its client groups by undertaking to take up studies and consulting assignments on behalf of the government and some international funding agencies.

The most important learning from Sathguru, APITCO and AKEPB is the entry strategy of the BDS providers. Each of these players is working for a different agenda. Sathguru for profits through long term association, APITCO for carrying out its mandate and being paid by institutions like SIDBI and AKEPB to ensure the members of the community continue to thrive - fees being secondary, the important aspect is that at the entry level the fees is subsidised and later telescoped. This is also the case with the earlier example of Photovoltaics that we examined.

Support Services for SSE of One Community: The case of AKEPB

While doing the study, we came across an interesting model being tried by the Aga Khan Economic Planning Board, Mumbai.

The community leaders have over the last few years have been articulating that the businesses of several of the Ismaili Khojas have stagnated and not grown. In response to this articulated need, the AKEPB has now hired a consulting firm to provide BDS to the members of its community on experimental basis for about a year in Hyderabad and Bhavnagar where the members of the community are concentrated.

Based on a study of around 80 businesses, it was found that the major areas where the community needed help were in the areas of costing, marketing and accounting. Now the agency has placed a consultant at each of the locations to work exclusively with the community. BDS services are charged on the basis of the client's ability to pay. The AKEPB pays a fixed fee for the consultant and there is a significant element of subsidy involved.

3.6.3 How do specialised BDS providers look at the SSE market?

There are several BDS providers who provide specialised services to the SSE. The specialisation includes technical design, process consulting and marketing support. Most of these BDS providers see SSE as a one-time client, for undertaking specific assignments. They clients might come back for another round when they are set for a significant expansion or re-design after a time gap.

In case of Dhopeshwar Engineering Consultants, they provide not only manufacture machinery in the chemicals, pharma, food processing and poultry engineering sectors, but also provide design consulting services. They feel that most of the time, when a SSE promoter approaches the consultant, he is not even sure what he wants to do. The only ideas several of the entrepreneurs have is the amount of capital they want to put in. Usually Dhopeshwar entertains only those clients who are clear about the product and capacity and only then offer specialised design consulting. For all practical purposes, Dhopeshwar does not offer total solutions or turnkey options - their skill is in engineering consulting and they do that in a focussed manner. Firms like Dhopeshwar tend to get more number of larger units than smaller units. Since they offer design cum fabrication services, most of the clients end up placing the order for the machinery with Dhopeshwar. The pricing is done in a manner where there is about a 10% premium charged for "knowledge" apart from the margins on fabrication. However not many approach Dhopeshwar for exclusive consulting services.

Dhopeshwar consultants do not seem to look at SSE as a entry level client. They typify their SSE client for knowledge services as a first generation entrepreneur. Mostly family owned businesses do not seek any knowledge-based services. But the demand for services of Dhopeshwar is not very consistent and depends on how the economy as a whole is doing. In the past couple of years their share of income from the SSE segment is dwindling essentially because the sector as a whole is not doing very well.

Very much like Dhopeshwar, Nalanda Associates - a marketing support organisation - also do not look at SSE as entry level clients. Unlike Dhopeshwar, Nalanda has the scope of getting more and more repeat orders - in terms of advertising, branding, packaging and other services. They could be producing brochures and leaflets for the SSE. Though Nalanda started out by providing services to SSE, they have now outgrown the segment and cater to larger clients including the Government.

BDS Providers who started with SSE - Two Contrasting Growth Trajectories

We found it very interesting to look at two service providers - Nalanda Associates, which essentially started out working with SSE - but very soon outgrew their clients. Though they continue to remain small themselves (Nalanda does not want to grow beyond a certain size just maintain the Hindu Rate of Growth, their client profile is no longer small) they do not think that SSE maintain pace with the growth of their service providers. This is a contrast to Sathguru who want to work through and through with the client once they take the SSE on. Possibly this is because they are a specialist service provider.

In contrast we have the case of a Excel Peripherals - a computer support service company which has remained small while its client group is growing and moving away from the support service provider. Small enterprises typically tend to use this company for ordering their first computers and giving them the service contract for maintenance. But as the client grows, they would want to shift to branded computers, bought out software and longer warranty periods, thereby leaving the neighbourhood assembler to look for other clients. This possibly happens because by the time a SSE gets to a stage of ordering a computer it is most likely to have crossed the barrier of mindset and possibly is moving towards some growth.

Nalanda now works only with a handful of SSI clients with less than 10% of their revenue coming from the sector. They claim that the client do not trust the professionalism of an agency like theirs because of their world-view of omniscience. "They expect the BDS provider to be a mere postman. Deliver an ad-copy which they have designed to the press or do a market research where the conclusions are expected to be on line with what the entrepreneur thinks." Over and above the attitude are the budgets of the SSE - which are abysmally low in most of the cases and to top that, there are bound to be delayed payments. All these put together the BDS providers see SSE as clients to be dealt with utmost caution and therefore they do not aggressively sell their services to the small enterprises. While Nalanda is willing to price its services competitively for the SSE, they do not think that the SSE are professional enough to trust the creative abilities of a specialist organisation.

3.6.4 Individuals as BDS providers

We talked to some independent consultants who have been providing services to the small industries as experts in certain niche areas. There are some consultants who work on issues of ISO certification and some others who offer specialised services in areas such as Central Excise and Sales Tax. In most cases the service providers are former employees of the respective departments. Very much the way we saw ex-employees of large Pharmaceutical units offering both process and marketing consulting services to the Pharmaceutical industry, we can see these consultants offering their services to the small industry.

We had detailed interactions with three such consultants - one providing consulting service in Central Excise matters, the second providing services in the area of ISO certification and the third a chartered accountant. All the consultants were dealing with the upper end of the SSE. Though it is not very evident from the primary data, the experience of Central Excise and ISO consultant was very positive with the first generation entrepreneurs who were their typical clients. They saw two reasons for this - the first generation entrepreneur is more on a learning mode as far as regulation and other matters are concerned and would not mind paying a fee for his own education. In family owned enterprises, it was likely that they would already know most of the procedures and would approach a consultant only when there was a specific problem that was beyond their own capacity to solve. Secondly, the first generation entrepreneurs were more open to new ideas and appeared keener to professionalise their outfits. Though there is not concrete data to support this, this seems to be a fairly widespread perception on the typological features of small entrepreneurs.

In case of the Central Excise consultant the income from small industries was a very small portion of the total income he earned. He said that he would often cross-subsidise them and sometimes even not charge if the nature of problem was very simple. However, even here the consultant maintained that there were two levels of consulting - helping them out in record keeping and helping them out in planning out their tax strategy. Unlike other departments where the employees of the state helped out the SSE in record keeping, the consultant felt that it was not very prevalent in case of Excise. Invariably most of the SSE tried to get out of the clutches of the department by spawning firms. But a handful of the entrepreneurs did approach the consultant for strategic services - at the planning stage itself.

By the very definition of taxability, the enterprises that approached the consultant were of a threshold size and there was a self-selection in this matter. The number of service providers in this area was large and there was competition. Most of the clients the consultant got was through word-of-mouth referrals and referrals from the industry association. Yellow pages type of advertising hardly seems to work but listing the name in the journals devoted to central excise does help and provide some legitimacy.

In case of ISO certification services, the consultant has been proactively approaching his potential clients. While the estimate is that there are about three dozen certified ISO consultants in Hyderabad, the competition is likely to mount further in the coming year. The consultant is working both with the larger industries as well as small industries. He says that getting clients is a result of a process of education and to survive as a consultant he has to invest in the process. While he does work with a group of larger firms - the firms usually tend to approach institutional consultants like APTECH, Rank, National Productivity Council, Indian Statistical Institute or the Engineering Staff College. So, in his opinion the market is somewhat self-segmented with individual consultants catering to the upper end of the small industry.

Market Pull - the Creation of Demand for Some Services

Apart from BDS providers selling their services to the SSE, there has been an interesting trend that has been forcing the entrepreneurs to seek certain services from some types of service providers. With larger firms who are buyers of the products of the small industries (this is particularly true in case of ancillaries) insisting on certain quality norms, it has become imperative for the smaller firms also to seek certification. This is particularly true in case of large industries that have been issued the ISO certification. They are in turn required to maintain some tab over the processes adopted by their suppliers to retain their certification. If the supplier is also ISO certified, then their job of monitoring is taken care of the periodic audits, which the supplier gets done. It reduces both hassle and costs. So with larger ISO certified units moving to purchase inputs from small industries that are ISO certified, there is a pressure for the smaller units also to get themselves certified.

The second area where there is market pull is due to the scheme of Modified Value Added Tax (MODVAT) introduced by the central excise. Though MODVAT was introduced over a decade and a half ago, it has gone through several rounds of refining. Due to MODVAT where the larger industrialist who in any case would fall in the excisable limits prefers to source raw materials from units which are also paying excise so that they could claim exemption to the extent of tax already paid. Because of this, several larger units prefer to source their material from the units that are registered with the Central Excise and are paying tax. This has helped in several smaller units going in for Central Excise registration, possible reduced spawning of firms to avoid excise and created a demand for the services of an excise consultant.

Here also, the type of clients he gets are somewhat self-selected - those who are open to be convinced or approach a consultant on their own. The consultant has been getting mostly first generation entrepreneurs.

One of the reasons why the consultant himself approaches the clients is to get over the "awe" factor. He thinks that there is a lot of jargon surrounding consultants and there is a feeling that they are all unaffordable. The fact that his employees go to the industries and solicit business helps them to break the myth of a price barrier. Whenever he conducts training programme or an awareness workshop he tries to make the language simple and local - thereby breaking the awe attached to his type of consulting. In addition, he has been approaching the clients through the industries association, which gives him legitimacy to approach the units. The government subsidy in the form of reimbursement of costs of ISO certification up to Rs.100,000 certainly makes the job of selling the idea so much easier. While the enterprise has to spend this amount initially, they do get the reimbursements from the state government (up to Rs.25,000) in about three weeks and from the centre (up to Rs.75,000) in about three months time.

There are some ISO consultants who have specialised in sectors like Pharmaceuticals where the technical knowledge of the process might help. However, largely in the ISO certification segment most of the consultants are willing to take up assignments with a cross-section of the units.

The chartered accountant we met also dealt with the upper end of the SSE sector. He was of the opinion that the SSE seek any support only when the situation is desperate. Even with regular service providers like chartered accountants, they would approach him for advice only when they were caught. He expressed the opinion that it was difficult to deal with these units because several of the problems that they express would have been avoidable. He also said that the SSE normally tended to terminate their consulting requirements with the auditor and would not even move to the other consultant suggested by the auditor. Though there was a great amount of mutual trust between the SSE and the Chartered Accountant, even then the services of the Chartered Accountant was used very sparingly. While he was quite willing to accept clients from the SSE sector as and when they come, he was unwilling to seek out small industries for offering his services.

Unlike Dhopeshwar or Nalanda, the individual consultants except the chartered accountant exhibited a fair degree of comfort and happiness in dealing with the small industry. It was particularly so with the ISO consultant who seems to have seen this as an untapped potential segment for focussing his work.

3.6.5 Industry Associations as BDS Facilitators and Providers:

In the process of the study what clearly came out while talking to the BDS providers was the significant role that the Industry associations were playing in getting an interface between small industries and the BDS providers. In case of independent individual consultants who provide consulting services in the areas of Excise, Sales Tax and ISO certification, it was clear that a significant part of the referrals came from the industry association.

The industries associations around Hyderabad maintain databases of their members, and organise seminars and workshops on topics of interest to their members. They also maintain interface with institutions like SIDBI and also make representations to the government on policy issues. For instance, one of the issues that the Hyderabad based Industry associations are trying to address in that of uniform sales tax. The Jeedimetla Industrial Association has been lobbying for better infrastructure for the members of the area - better roads, power and transport facilities. They organise conferences on larger issues happening in the economy and how it would affect the small industrialists. The small industrialists see issues like patents, GATT and WTO as something that would never affect their business. An exercise on awareness building on how these large issues affect the smaller firms is usually taken up by some of the forward-looking associations.

It appears that industry associations are in a position to provide good interface between service providers and the SSE. Though it did not come out from the survey of SSE that entrepreneurs go to the industry associations for advise, it is done more on an informal basis through mutual contacts. Most likely, the business associates who advise the SSE are also in some way associated with the industry associations. The feedback from the supply side - that is the service providers has been that these associations do play a positive role and their role, if any, should be enhanced - essentially because they provide the credibility and legitimacy for any intervention to be made. They are the most effective engines of reaching the SSE because they usually are small neighbourhood associations manned by one amongst the SSE.

3.6.6 Other BDS Providers

As a part of our data collection we did find that one of the small engineering firms had hired a software company to design their web-page which was put on the internet with their own domain name. We did interview the service provider who unfortunately had only one small industry as his client. The other clients were larger units. However with some of the small industries in export business, this service might catch on as time goes by - particularly since this seems to be reasonably priced and the content would not exceed a few pages and contact details. However, the service provider indicated his scepticism in trying to focus on these areas. He believed that small units would have to have some familiarity with basic computing before such a service could be sold to them.

4.0 Role of funding Agencies

We talked to almost all the BDS providers on what should be the policy initiative and how resources could be channelled to make the BDS sector and thereby the small industry sector very vibrant. We have some very clear opinions from some of the BDS providers. Some indications have clearly emerged from this study.

It is very evident that the most pressing need of several small industries is to generate awareness about what is happening to some specific sectors where small industries are significant in numbers. The effect of patents is a very clear case with the Pharmaceutical industry. So, clearly the funding agencies like DFIDI could help in producing the perception study. Something has to be done to change the mindset that the consultants are not affordable, solutions will be big and might not be practicable. We have clearly seen examples of both the solar energy unit and the ISO consultant where with a little element of subsidy it is possible to push the small units towards seeking support services. If it turns out to be a question of survival - the way the Propaganda-cum-Distribution consultants have emerged - the issue will then take its own course and possibly its own time.

A very clear indication that came from some of the BDS providers was that routing the support through the Government was going to create problems of percolation. Though we have an example of subsidised ISO certification, how much of any new scheme would reach the right type of people is certainly a question to be answered. At the same time one of the BDS providers was wary of using Non-governmental organisations. That seems to be most natural route any donor agency will take. The BDS provider insisted that there are no NGOs that have specialised in micro or small enterprise development in an organised manner. So the most natural choice should be to work through existing institutions like SISI, NISIET and APITCO to help capacity building in NGOs and support to other players in the BDS market.

The Hyderabad Chapter of International Association of Management Consultants has done a couple of training programmes exclusively for Small Industries in the past. They have suggested a polyclinic format of consultants to address this issue. Here, it is envisaged that some of the BDS providers will be invited to make themselves available once in a week/fortnight at a place like SIDBI. Any small industrialist seeking any BDS service could check on the day on which that consultant would come and approach her or him for a nominal fee. After the initial contact is established they could work out the details with information to an institution like SIDBI or any other such institution interested in the small industries sector. It might be worthwhile to examine such an idea.

Apart from the above, the most appropriate channel through which this problem could be addressed is through the small industries associations. These associations are usually not-for-profit and are in the neighbourhood of the small industries. So each of these associations could focus on the specialised needs of their members and would give a focus to the entire program. It would give a great deal of legitimacy and help in breaking the "awe" factor.

Looking at the opinions expressed by the BDS providers and the data collected from the primary level it can be said that the best route for channelling any support would be through the industry associations. This assistance could be used to subsidise the initial fees and help a telescoping strategy. While the BDS providers have advocated this route - because the association gives a good interface, from the demand side the following data supports this conclusion:

- An overwhelming number of respondents use friends/business associates and industry associations for getting information on BDS providers in case of a problem (Table 4)
- The use of BDS providers in transaction related services indicates that at least a half of them have been using external help in the past
- There is little evidence that the SSE do not hire outsiders for reasons of trust and confidentiality (Table-8)
- When they use a BDS provider, they usually tend to get back to the same provider (Table-4)
- The small interventions in the way the business is conducted - MODVAT and ISO certification as customer pull, Subsidies in Photovoltaics, and providing entry level BDS for a small fee as in AKEPB example indicate that the basic barrier is the initial breakthrough.

Considering the above factors and the experience of the ISO provider of having made presentations in the local language - tackling the "awe" factor - it appears that if there is an existing structure that might provide an initial credibility, it is the association. This does not rule out a serious examination of other alternatives listed above.

5.0 Conclusions

Based on ninety structured interactions with SSE in four sectors and nearly a dozen interviews with BDS providers, we conclude the following:

- The inputs needed by SSE can be divided in two categories. "Transaction Related Services" such as those needed for managing accounts, labour laws, tax records, returns and compliance with other regulations are needed by almost every SSE. While quite a few of the SSE at the lower end manage even these on their own, a bulk of them use BDS in this category at least for the tax and regulations purposes. These inputs are usually obtained from subject matter specialists - including petty functionaries in the regulating agencies themselves - who may, but need not restrict their interaction to the relevant transactions. Two sub-categories within these: routine services and specialised services for sorting major problems may be noted, the latter used only when there is a major jam and the provider identified through the routine BDS provider or through the industry association.

- The "strategic services" such as those needed in regard to non-immediate or non-urgent issues but to expand business, identify and service markets, design products, set up facilities and seek finances are needed by a large number of SSE though only a few use them. Their reluctance to use the services from BDS providers include their mind set, their perception that there is "no value for money" in this regard and their awe for the strategic BDS providers.

- There is sufficient ground to indicate that the SSE obtain the relevant inputs but there is sharp divergence on perception regarding price-quality relationship. SSE believe that they do not get good quality service for the price charged while the BDS providers regard SSE as niggardly paymasters and customers who do not want to give a free hand to the service providers. There is a strong perception among BDS providers that there is a wide gap between what the SSE need and what they ask for.

- The BDS market can be characterised into the above two categories. The market for transactions related service exists since there is articulated demand and willingness as well as ability to pay among the SSE. The market for strategic BDS for SSE has largely failed to come up. Those of the SSE who realise their need for strategic BDS tend to make do with patchy and informal discussions with friends, business associates or others. Strategic BDS providers respond by not specialising on SSE but by working with a range of clients, not depending on SSE for more than a quarter of their revenue and even distancing themselves from SSE. Chartered accountants straddle both the segments of the markets and some times even act as sourcing agents for BDS that they do not provide. The only instance where strategic BDS market has come up on its own is the case of marketing consultants who provide assistance for the formulations units around Hyderabad.

Donors could assist the BDS market by

- Encouraging a major drive for creating awareness among the SSE that they in fact need a lot of non-transaction type BDS for them to cope with the fast changing competitive industry of a globalising economy
- Encouraging industry associations to create networks of strategic BDS providers so that the SSE could access them withoug awe and inhibitions
- Encouraging emergence of "poly-clinic" type BDS agencies either through the public agencies or through associations of BDS providers and finally
- Part subsidising the cost of strategic BDS by channelling financial support through industry associations for the SSE to benefit from strategic BDS providers.

Study of Business Development Services for Small Industries in India

Interview Schedule with SSI

Identification

1.1. Identification Details (Please attach Card)

1.1.1. Name of the Unit______________________

1.1.2. Address______________________________
____
____
____

1.1.3. Phone/Fax_____________________________

1.1.4. Email_________________________________

1.2. Management

1.2.1. Name of the Promoter/Key person_____________________

1.2.2. Age______________________

1.2.3. Profession/Occupation of the parents/guardians_________________

1.2.4. Promoters Qualifications____________________________________

1.2.5. Occupation before starting the business________________________

1.2.6. Number of partners/persons having stake in the business__________

1.2.7. Of these active partners having technical background and/or business knowledge (Partners who contribute more than money)_____________________

1.3. Industry Category: Pharma/IT-computer-software/Food/Engineering

1.4. Establishment Details

1.4.1. Year Started first business __________________________________

1.4.2. Name of the firm at start____________________________________

1.4.3. Year of starting of current business___________________________

1.4.4. Year of shifting to current premises ___________________________

1.4.5. Number of sister concerns and their lines______________________

1.4.6. Year of establishment of sister concerns_______________________

1.4.7. Legal Status of the main firm_________________________________

1.5. Product lines

1.5.1. Original Product line____

1.5.2. Current product line____

1.5.3. Whether job work or own production____________________________
____

1.6. Size and Structure

1.6.1. Capital Employed – Plant and Machinery__________ Working Capital _________

1.6.2. Turnover of group 1998-99_______________________________________

1.6.3. Of which the turnover of main firm in 1998-99________________________

1.7. Working capital limit sanctioned by the bank, name of the bank
Rs.______________________ Bank Name:_________________

1.8. Term loan
Rs.______________________ Source____________________ Year taken_____________

1.9. Number of premises/other establishments____________

1.10. Number of Employees
Main firm___________________ Other firms__________________

1.11. Number of persons in senior levels other than from the family of the entrepreneur._________________

2. Regulatory Issues:
Who does work relating to the following activities?
Enter 1 for Own Employee
Enter 2 for Outside, but regular retained help
Enter 3 for Consultant as and when necessary

	Record Keeping	Returns	Problem Solving
Accounts			
Labour records and related issues			
Excise			
Sales Tax			
Pollution control			
FDA			
Factories Dept			
Boiler, Explosive and other regulation related			

In case of outside consultants being used ask for the following details:

- What is the trigger for hiring an outside consultant
  - Complexity of the case – legal/technical
  - Amount involved
  - Other serious repercussions
- Who helps in identifying the consultant
- Whether the same person has been hired on a consistent basis

3. Business Development Issues
(The following questions need narrative responses and probing or encouragement to go on, Incase there is external help sought on any of the following issues, please note down the details on a separate sheet of paper)

Sl No.	Item	Own Decision/ Outside Help /NA	Who if outsider	Whether paid for (Yes/No)	Remark
1	How did the entrepreneur decide on the initial product line?				

2	How did the entrepreneur decide on new product lines?				
3	How did the entrepreneur decide which customers to approach?				
4	How did the entrepreneur identify and approach the Local customers				
5	How did he approach the most important customer?				
6	How did he approach Up country customers				
7	How did the entrepreneur decide on the distribution channel?				
8	How did the entrepreneur decide on the storage, transportation and sales points				
9	How did the entrepreneur decide on other operating systems?				
10	How does the entrepreneur decide on the packaging of products				
11	How does the entrepreneur decide on the pricing strategy				
12	How did the entrepreneur establish a brand for the products of the unit?				
13	How does the unit undertake promotion of its products?				
14	How does the unit undertake Advertising?				
15	How did the entrepreneur go about seeking term loans from financial institutions/banks?				
16	How did the entrepreneur go about seeking working capital loans from financial institutions/banks?				
17	How did the entrepreneur seek any finance from Chit Funds/NBFCs or other Unsecured debts from institutions other than banks and FIs?				
18	How did the entrepreneur seek any unsecured debts or deposits from				

	individuals?				
19	During the last few years, how did the unit develop new products or services?				
20	How did the entrepreneur decide on location of new factory/premises?				

3.1. On which of the important issues connected with his business (including some of the above) does the entrepreneur informally discuss with:

Sl No	Issues	Friends	Senior family members	Community leaders	Business associates	Industry association	Imprtant customer / vendors	Others
1	Hiring of Professional consultants							
2								
3								
4								
5								

4. Current Supply of BDS Services

4.1. In the knowledge of the entrepreneur, for which of the following areas are services available in the market? (try and get contact details of these suppliers if possible)

Scale:
1 = Very good (Quality Very good, price very reasonable)
2= Good (Quality good, price reasonable)
3= Average (Quality Average, price moderately reasonable)
4= Not so good (Quality not so good, price somewhat high)
5= Bad (Quality bad, price too high)

Sl No	Area	Yes/No	Quality (scale of 5)	Price (scale of 5)
1	Undertaking market surveys			
2	Preparation of Project Reports			
3	Advise on devising capital structure			
4	Technology choice/adoption			
5	Selection of equipment and their erection			
6	Product design			
7	Marketing (brand, promotion, pricing, distribution channels, packaging etc.,)			
8	Sourcing of good personnel			
9	Training			
10	Information about business of interest to the entrepreneur			

11	Trends in domestic and international market			
12	Important developments affecting the business of the unit			
13	Computers and IT			

4.2. In the opinion of the entrepreneur he is unwilling to hire professional consultants because:

4.2.1. He is living hand to mouth and therefore cannot afford consultants unless absolutely necessary
4.2.2. He is too busy and has time only for the most pressing matters
4.2.3. The consultants may give confidential information to his competitors
4.2.4. Consultants can give only general advise and no specific solutions

4.3. According to the entrepreneur, which of the services does he need most for the development of his business

4.4. Is this available locally?

4.5. Is it priced right and of sufficiently good quality?

5. Any other comments

Name of the Interviewer:_________________________