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A Study on Challenges and Prospects in Indian Service Sector A Way Forward

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ABSTRACT

Now a day in developing countries like India the service industries are on the peak of their growth. Service industry is the fundamental, which provide base to develop the economy. Different indicators like shares in national and states' GDP, FDI, Employment and export indicate the importance of service sector for the Indian economy. The services sector is a vital cog in the wheel of the Indian economy. This paper provides an overview of the Indian services sector. It shows that services is the fastest growing sector in India, contributing significantly to GDP, GDP growth, employment, trade and investment and the paper highlights the operational issues, opportunities and challenges of service industry in India. This paper also takes into consideration the importance of quality of services in service industry. The paper identifies a number of barriers faced by the services sectors and suggests policy measures, which, if implemented, will lead to inclusive growth, increased productivity, generate quality employment, increase trade and investment, and enhance India's global competitiveness in services.

Key Words: Service sector, Opportunities and operational issues, Technology, Employment, Productivity, Trade Agreements and India etc.

1. INTRODUCTION

As we know "Quality in a service or product is not what you put into it. It is what the client or customer gets out of it. Peter Drucker" Service industry is an industry made up of companies that mainly earn revenue through providing intangible products and services. Service industry companies are involved in retail, transport, distribution, food services, as well as other service-dominated businesses. (Business Dictionary .com) The service sector also includes the supply of a service like entertainment and other tangible and intangible, direct and indirect services like Financial Services, Advertising services, Banking and Insurance services, marketing; Online services, Real estate services, Education Services, Legal services, Public administrative and Defense services, Medical and Health care services etc. (Service Sector Statistics) Principal characteristic of a service industry is one to one interaction. Goods, however, may also be transformed when providing a service.

The services sector, with around 52 per cent contribution to the Gross Domestic Product (GDP) in 2014-15, has made rapid strides in the past decade and a half to emerge as the largest and one of the fastest-growing sectors of the economy. The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

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The growth of India's services sector, its contribution to GDP, and its increasing share in trade and investment has drawn global attention. Unlike other countries, where economic growth has led to a shift from agriculture to industries, in India, there has been a shift from agriculture to the services sector. In this respect, some economists (Ansari 1995) consider India as an outlier among South Asian countries and other emerging markets. Contending this view, Gordan and Gupta 2003, Banga 2005 and Jain and Ninan 2010 have pointed out that India is not an outlier as the share of services sector in GDP has increased with rise in per capita income. Existing studies show that liberalisation and reforms is one of the important factors contributing to the growth of services sector in India (Chanda 2002, Gordan and Gupta 2003, Banga and Goldar 2004 and Jain and Ninan 2010). With economic growth and rise in per capita income, there is a change in demand pattern from necessary to discretionary consumptions like education and personal and health care services (McKinsey & Company 2007).

2. OBJECTIVES OF THE PAPER

- The objective of this paper is to provide an overview of the Indian services sector.
- To understand the operational issues, challenges and opportunities of service sector in India.
- It identifies major barriers faced by the sector and provides policy recommendations which if implemented will lead to inclusive growth, increase productivity, and generate quality employment and increase trade and investment.
- This study aimed to serve the importance of quality of services for the growth of service industry.

CONTRIBUTION OF THE SERVICES SECTOR TO INDIA'S GDP

After India's independence, for more than a decade share of services in the GDP was less than 30%. Table 1 shows that overtime the share of services in GDP has increased while that of agriculture has declined. In the last decade, the share of services has surpassed the combined share of agriculture and industry, making it the most important contributor to the country's output. In 2009-10, services, industries and agriculture respectively accounted for 57.3%, 25.7% and 16.9% of India's GDP.6 Nevertheless, the share of services is lower than that of developed countries (the United Kingdom (UK, 78.4%) and the United States (US, 78.2%)), but higher than that of China (41.8%).

DECADAL AVERAGE OF THE YEAR ON YEAR SHARE OF THE DIFFERENT SECTORS IN INDIA'S GDP FOR THE PERIOD 1950-2010 (IN %)

Sector	1950/51 1959/60	1960/61 1969/70	1970/71 1979/80	1980/81 1989/90	1990/91 1999/2000	2000/01 2009/10
Primary/Agriculture	55.3	47.6	42.8	37.3	30.9	21.8
Secondary/Industries	14.8	19.6	21.3	22.3	23.3	24.5
Tertiary/Services	29.8	32.8	35.9	40.3	45.7	53.7

TABLE No 1

MARKET SIZE

The services sector contributed US$ 783 billion to the 2014-15 GDP (at constant prices) growing at Compound Annual Growth Rate (CAGR) of 9 per cent, faster than the overall GDP CAGR of 6.2 per cent in the past four years.

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Out of overall services sector, the sub-sector comprising financial services, real estate and professional services contributed US$ 305.8 billion or 20.5 per cent to the GDP. The sub-sector of community, social and personal services contributed US$ 188.2 billion or 12.6 per cent to the GDP. The third-largest sub-segment comprising trade, repair services, hotels and restaurants contributed nearly equal or US$ 187.9 billion or 12.5 per cent to the GDP, while growing the fastest at 11.7 per cent CAGR over the period 2011-12 to 2014-15.

INVESTMENTS

The Indian services sector has attracted the highest amount of FDI equity inflows in the period April 2000-September 2015, amounting to about US$ 45.38 billion which is about 17 per cent of the total foreign inflows, according to the Department of Industrial Policy and Promotion (DIPP).
Some of the developments and major investments by companies in the services sector in the recent past are as follows:

- Credit Analysis and Research (CARE Ratings) has signed Memorandum of Understanding (MoU) with Japan Credit Rating Agency, Ltd (JCR) to collaborate with each other as strategic business partners.
- Shuttl, an Indian bus aggregator platform headquartered in Gurgaon, has raised US$ 20 million in Series A funding from Light speed, Sequoia India and Times Internet Ltd.
- Indian logistics platform Rivigo has raised US$ 30 million in debt and equity in Series B financing round, led by SAIF Partners. The firm aims to use the raised funds to achieve its target of scaling 10 times in the next 12 months.
- India had the strongest activity in office leasing space in Asia and accounted for half of Asia's total office leasing in third quarter of 2015, with Delhi being the most active market@.
- Fairfax India will look to acquire controlling stake in collateral management and weather advisory firm National Collateral Management Services (NCML) where the deal size could be $150-180 million.
- Amazon, the world's largest online retailer, plans to invest Rs 31,700 crore (US$ 4.76 billion) in India in addition to the US$ 2 billion investment it committed two years ago, in expanding its network of warehouses, data centers and increasing its online marketplace, besides launching an instant video and subscription-based ecommerce services for high-end buyers, called Amazon Prime, later this year.
- The private security services industry in India is expected to register a growth of over 20 per cent over the next few years, doubling its market size to Rs 80,000 crore (US$ 12 billion) by 2020.
- The Government of India has awarded a contract worth Rs 1,370 crore (US$ 210 million) to Ricoh India Ltd and Telecommunications Consultants India Ltd (TCIL) to modernise 129,000 post offices through automation.
- Taxi service aggregator Ola plans to double operations to 200 cities in current fiscal year. The company, which is looking at small towns for growth, also plans to invest in driver eco-system, such as training centers and technology upgrade, besides adding 1,500 to 2,000 women drivers as part of its pink cab service by women for women.
- JP Morgan Asset Management (UK) Ltd, JP Morgan Investment Management Inc and JP Morgan Chase Bank NA, have together acquired 4.11 per cent stake in Mahindra & Mahindra Financial Services Ltd for Rs 113.75 crore (US$ 17.1 million).

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GOVERNMENT INITIATIVES

The Government of India recognises the importance of promoting growth in services sectors and provides several incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others.
The Government of India has adopted a few initiatives in the recent past. Some of these are as follows:

- The Central Government is considering a two-rate structure for the goods and service tax(GST), under which key services will be taxed at a lower rate compared to the standard rate, which will help to minimize the impact on consumers due to increase in service tax.
- By December 2016, the Government of India plans to take mobile network to nearly 10 per cent of Indian villages that are still unconnected.
- The Government of India has proposed provide tax benefits for transactions made electronically through credit/debit cards, mobile wallets, net banking and other means, as part of broader strategy to reduce use of cash and thereby constrain the parallel economy operating outside legitimate financial system.
- The Reserve Bank of India (RBI) has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and has also allowed white label ATMs to tie up with any commercial bank for cash supply.

Opportunities and Challenges in Service Sector in India – The Indian service industry has emerged as one of the largest and fastest-growing sectors on the global landscape and hence has made substantial contribution towards global output and employment. Growing at faster pace as compared to agriculture and manufacturing sectors, Indian service segment comprises of wide range of activities, such as trading, transportation and communication, financial, real estate and business services, as well as community, social and personal services. (Service sector in India, 2013)

LPG has opened the door for the growth of service sector but in India it has entered with so many challenges. The Indian rural market has great potential. All the major market leaders consider the segments and real markets for their products and services. It proves that large opportunities in service industry are available. Development of tourism industries, innovation of new technology, increasing the living standard has extended the scope of service industry. Development of professional courses, Advertising, Entertainment, Marketing, IT industry, development of stock market and financial services all field are giving opportunity to human resource to develop and to increase the living standard . E-commerce and internet are one of the fastest growing service sub-segments in the Indian economy. Finding the Indian e-commerce space lucrative enough, Amazon, the world's largest online retail company, has entered the market with a promise of ensuring low prices for users and a better platform for sellers. India is the tenth market where Amazon has come up with a country-specific retail Web site. (Service sector in India, 2013)

No doubt the contribution of service industry in Indian economy is tremendous, but still it is not functioning smoothly. Emerging amid liberalization and increasing integration with the global economy, India's service industry offers tremendous potential and daunting challenges. The major challenge for service companies is to decide in what way they will be distinctive and how they can

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bring that about. Many companies believe that bundling services to provide onestop shopping is the way. However, that bundling works only if companies add genuinely new benefits beyond an integrated bill and a small bundled-price discount. Instead of thinking what disparate offerings they can put together, companies should work with customers to understand where opportunities exist to create real value. Underdeveloped infrastructure, obsolete policies, complex cultural and inadequate exposure to services standards are challenges that remain even after 67 years of Independence. Yet, we know that an opportunity lies in challenges and adversities.

Quality of training transcends mere technical or product knowledge to include communications, behavior and interaction. This is because in a service transaction, even seemingly minor or inconsequential issues like tone of voice, body language or personal grooming assume great importance. Other yardsticks of service are accessibility, convenience, efficiency and customized solutions. These in turn call for high quality of manpower and stronger work ethics. With a few exceptions, both are found wanting in the Indian service industry. Inflation, increasing cost of petrol, Depreciation of Indian currency and Deficit Budget are the major challenges for service sector, which is increasing cost of service sector.

The services industry calls for a highly trained and mature workforce. Unlike traditional businesses, the degree and quality of training transcends mere technical or product knowledge to include communications, behavior and interaction. This is because in a service transaction, even seemingly minor or inconsequential issues like tone of voice, body language or personal grooming assume great importance. (choudhary, 2013).

3. SUGGESTIONS FOR SERVICE INDUSTRY AND ROAD AHEAD

The only way to achieve world-class service standards is to hone our human capital. Still there are suggestions to improve the position of service industry in India. Education and training are the first building blocks. Training is an expensive and recurring cost but is an essential catalyst for growth. Hospitality and tourism industries are examples of how training and education can not only transform raw talent into professional service provider but also how training is linked to creating competitive advantage by enhancing service standards.

Services are intangible and cannot be judged by potential customers before the contract is completed. For example, efficiency of an invested fund is judged after taking return of invested fund for a time period. No guarantees are given for a specific outcome. These are coupled with the ability and willingness of a service provider to go the extra mile and chase stretch goals to cater to customer requirements.

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Customer service in any service industry is one of the most important parts of a company's overall strategy to conducting business. Without customers you really don't have a business. In any organization the commitment to customer service begins at the top. The company's leaders must buy into the fact that they not only need to meet their customer's expectations, but actually strive to exceed them.

Getting feedback from customers is an excellent way to track and measure the level of service provided by any industry. If one can consistently make this part of how to conduct business, the

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customer's loyalty will continue to grow. Meeting and exceeding the customer's expectations in the products and services provided today, is the best way to ensure future growth and success.
Quality of services, , Ambience, Proximity from your place and Price/ Cost Factor/Economic values, Quickness of services, take care of customer, Hygienic Environment and Availability of bulk services all are the factors which customers takes into consideration while using various services.

Services sector growth is governed by both domestic and global factors. The sector is expected to perform well in FY16. Some improvement in global growth and recovery in industrial growth will drive the services sector to grow 7.4 per cent in FY16 (FY15: 7.3 per cent) as per MrDilipChenoy, MD and CEO of National Skill Development Corporation. The Indian facilities management market is expected to grow at 17 per cent CAGR between 2015 and 2020 and surpass the $19 billion mark supported by booming real estate, retail, and hospitality sectors. The performance of trade, hotels and restaurants, and transport, storage and communication sectors are expected to improve in FY16. Loss of growth momentum in commodity-producing sectors had adversely impacted transport and storage sectors over the past two years. The financing, insurance, real estate, and business services sectors are also expected to continue their good run in FY16. The growth performance of the community, social and personal services sector is directly linked with government expenditure and we believe that the government will remain committed to fiscal consolidation in FY16.

4. CONCLUSION

Services sector is the fastest growing sector in India, contributing significantly to GDP, GDP growth, trade and FDI inflows. The sector is projected to be on a high growth trajectory in the next five years. The share of services sector in India’s total trade is higher than the global average and India is among the top 10 WTO member countries in services exports and imports. However, the increase in employment in services has not been commensurate to share of the sector in the GDP. The paper found that the services sector faces a number of barriers, which makes it difficult for the sector to reach its full potential and contribute to inclusive growth. The major challenges for service industry are day by day increasing cost due to inflation. Compounding cost, Confounding communication, Dwinding demand growth, Stagnant innovation and Representative leadership are major challenges for service industry (5 challenges facing the hoteliers of tomorrow, 2012). To strike the compitionin global market and to increase the contribution of service industry we should focus to provide the services with minimum cost, and with the maximum satisfaction of the customer. Government should providing economic assistant for the development of service sector. The success of service industries is depending on the quality of service provided by them to customer. When customers come through the doors, they expect quality in every aspect of their requirement.

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