

Survey of SMEs in Hyderabad

Ashok Kondapi

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Defining an SME

- No common definition.
- RBI says firms with investments upto Rs. 1 Crore fall under SSI. (lending comes under priority sector).
- Government has recently given the following definitions:
 - Small as those with investments of \leq to Rs. 5 Crores.
 - Medium as those with investments $>$ Rs. 5 Cr. but $<$ 10 Cr. In plant and machinery.
- Private and foreign banks define SMEs as companies with turnover between Rs 10 Crores and Rs. 700 Crores.
- Private Equity investors define SMEs as those with revenues $<$ Rs. 300 Cr.
- GoAP brought a new act: The Micro Small and Medium Enterprises development Act 2006 (from October, 2006).
 - Micro...Upto Rs. 25 Lakhs; Small...Upto Rs. 5 Cr.; Medium...upto 10 Cr.

Defining SME

Various parameters need to be looked at in defining an SME:

- Turnover.
- Number of employees.
- Geographical segments where they have operations.
- Number of offices in overseas geographies.

While such a strict definition was not used, a sample of seventeen diverse SMEs was selected for the initial round of interviews.

List of Organizations Surveyed

- iSpace Software Technologies
 - Managing Director; VP, BPO Services; Head, IT; Mgr, Human Resources; Mgr, Operations;
 - Domain – Health Care Insurance
 - About 350 associates

- IIC Technologies
 - Head, Finance; Head, Delivery operations & Business Development; Mgr., HR
 - Domain – GIS, Photogrammetry, Navigation technologies
 - About 640 associates

- Embedded Infotech
 - Head, HR
 - Domain – Network security, IP Networking, Switching solutions, Wireless technologies
 - About 80 associates

List of Organizations Surveyed (contd)

- Vortex Technologies
 - Founder/ Managing Director; Mgr., Finance; Mgr., Delivery Operations
 - Domain – Business Process Management and Performance Monitoring
 - About 25 employees

- Strabus
 - Founder/ Managing Director
 - Domain - Business Applications Development and Maintenance.
 - About 25 employees

- OSI Systems (has a U.S. Parent)
 - VP – Operations, Mgrs - Business Development, Finance, Quality, HR
 - Domain – Engg. Services, Medical & Security Product Services, ERP solutions
 - About 125 employees

- Hello Soft (has U.S. Parent)
 - CEO
 - VoIP Products and associated services.
 - About 150

List of Organizations Surveyed (contd)

- One Convergence
 - Founder, CEO; Mgr. of HR
 - Domain ; Products for IP enabled Wi Fi, Wi Max, Cellular segments
 - About 15 people.

- Vital Technologies
 - Founder, CEO
 - Domain – S/W Development, Third Party Testing, Level 2 tech support in Document Rights Management (DRM).
 - About 50

- Value Momentum (has U.S. Parent)
 - Managing Director, India Operations
 - Domain – IT Consulting, Systems integration, Managed IT services, and Process Management services.
 - About 85 (Indian operations)

List of Organizations Surveyed (contd)

- MIC Electronics
 - CEO/ MD, VP, Senior Managers of operations and HR
 - Domain – LED display devices, telecom equipment and S/W services, BI, and specialized business applications.
 - About 350 employees.

- Sierra Atlantic
 - MD, Global Services
 - Domain – Enterprise Application Services, Outsourced Product Development, Business Process Integration
 - About.....employees

- Elico
 - CEO/ MD
 - Domain – Analytical Instrumentation, embedded S/W, BPO (Medical)
 - About....employees

- Sify
 - Advisor, Corporate Strategy

List of Organizations Surveyed (contd)

- Ananth Technologies
 - CEO/ MD
 - Domain – Engineering Services, Spatial Information Systems, Embedded S/W.
 - Aboutemployees

- Temple Technologies
 - CEO
 - Domain – Business Applications
 - About 70 employees

- Future Tech
 - CEO
 - Domain – Business Applications
 - About ... employees

- Mr. Randeep Sudan, IT Advisor, World Bank

Regulatory & Tax Issues

- All the organizations interviewed mentioned that dealing with various agencies such as Excise, Sales Tax, etc. was a major pain area.
 - HYSEA should fix periodic (preferably monthly) meetings with senior officials of Government agencies. This would enable a constructive and operating relationship for quick resolution of problems/ issues.
- When HYSEA enables such interactions, accountability in terms of service levels by these agencies can be inculcated.
- Lack of clarity on what taxes to apply (ex: on GIS maps).
- Enable uniform taxation methodology across the S/W industry.
- Clarity required on transfer pricing.
- They need clarity on eligibility for SEZs. HYSEA should enable this.

Issues with STPI/ Infrastructure

Feedback on Eco System

- We are evolving, and so have to go through the pains.
- Reliance on Government should be limited to creation of a level playing field and good infrastructure environment.
- Government has given land at preferential rates to large organizations which is unfair. This could have been motivated by image considerations.
- Big companies got land allotment in the middle of a city (ex: Satyam in Vizag)
- This will have a serious and adverse impact on the SME sector. Such issues need to be addressed because high real estate prices pose a serious impediment to the growth of SMEs.

Issues with STPI/ Infrastructure (cont'd)

Eco System...

- Presently, S/W companies are eligible for a tariff subsidy from the Electricity Department. Process needs to be made simpler. HYSEA should enable coordination between IT & C and Electricity departments.
- Electricity department should publish a report on the Power outlook in the state for the next few years. This would enable SME organizations lead time to plan investments in captive power generation equipment.

Issues with STPI/ Infrastructure (cont'd)

Specific feedback

- STPI processes need to be streamlined to minimize delays for clearances (getting extra machines was a hassle for one SME). The follow up required wastes precious SME resources.
- Why can't SME services be used to automate these processes instead of giving this work to NIC?
- STPI should publish a booklet to guide new entrepreneurs who return from abroad. This will promote the necessary awareness.
- They should create a one stop desk for all services/ permits. An entrepreneur should be able to write one cheque for all services to be rendered.
- Can bandwidth be made cheaper for SMEs?
- Can HYSEA create pressure to achieve the above objectives?

Industry Structure

- **There is no “Mother Plant” model (ex: Maruti Suzuki) in S/W industry.** Therefore does not make sense to “just get into business”.
 - Essentially, there are three tiers of companies in the Indian S/W industry.
 - The tier 1 and tier 2 have reached a stage of self sustenance.
 - The tier 3 companies (SMEs) tend to be very niche oriented, single product or with a regional focus. The entrepreneur is generally a specialist. These organizations will tend to remain as SMEs over the long term.
 - HYSEA Could act as the catalyst for enabling productive relationships between the tier 1 & 2 companies and the tier 3 organizations.

Industry Structure (cont'd)

▪ Business models

- The potential to become large depends on breadth of offerings, access to large markets, and the business model. Otherwise, an SME will continue to stay in the SME category.
- Those operating in a mature and consolidated sector such as IT services, are driven by clear criteria such as cash flow and bottom line.
- In the BPO/ ITES space, Processes and Scalability are important.
- SMEs operating in emerging verticals need to be more innovation driven to create a clear and Unique Value Proposition.
- While addressing issues of the future, the SME must first understand the market landscape for a given market segment. Then, the importance of choosing the appropriate business model should be kept in mind.
- Therefore, these primary issues have to be faced first.

Industry Structure (cont'd)

▪ The SME Mindset

- They have to realize that they cannot depend on the Government for everything.
- SMEs have to be counseled about having realistic aspirations based on the industry landscape.
- There is an acute need to specialize, develop expertise, and a competitive edge in a specific domain. This is required to survive in the market. If there is no competitive edge, should not enter the business.
- The tier 3 companies should focus on specific domains such as Quality Services, Manpower Sourcing, Testing & Validation, and Training.
- Their cultures have to be different and nimble. Their HR structures should be different such as “Networked” models.

Business Development

Feedback on Eco System

- Marketing/ Technology support to SMEs by companies such as IBM, MS, ORACLE.
 - Government of Singapore runs a program called Infocom Linked Industry Upgradation Program (ILIUP).
 - The government pays the salary of one top executive from each MNC who enables SME access to the latest technology and markets abroad.

- Access to Industry studies
 - Subscriptions to Gartner, etc. for Market intelligence, can be provided by Government funding.

Business Development (cont'd)

Specific Feedback

HYSEA should perform the following enabling activities:

- Project a clear USP for Hyderabad (three or four slides PPT or a video CD).
- Associate with business/ industry bodies overseas. Build image for both HYSEA and Hyderabad based software organizations.
- Should sponsor visits of outsourcing organizations from abroad. Members can contribute some amount beyond fees.
- Organize SME business delegations to other countries. We should connect the SMEs here to SMEs abroad.
- Should have a help desk to guide start up entrepreneurs.
- Bring FAPCCI members and have an interactive workshop.

Business Development (contd)

- Create A Government Tender Desk because of its close links with the Government. This would enable the SMEs to bid for business such as in National Electronic Governance Plan.
- Counsel “struggling/ sick” SMEs in terms of what can be done to move forward.
- Educate local SME units that they cannot get business unless they have a contractual entity as a front end in the overseas geographies.
- Enable subcontracting of work to SMEs by the larger players?
- Consortiums do not work in bidding for larger projects.
- Generating leads for companies pursuing acquisitions would be helpful.
- Grading of members in a confidential manner (based on the delivery track record) on the web site was suggested to help those seeking information.

Business Development (contd)

- A newsletter which covers the A.P. software scene in terms of tenders, exhibitions, events, new entrants (Products/ Services, in HYD), etc. is a must.
 - fortnightly would be ideal. Hyderabad chapter of SPIN publishes their newsletter regularly.
- Website should function as an exchange for lead generation/ opportunities. It should serve as a portal for IT services. Telugu NRIs could feed opportunities, trade enquiries into the portal.
- Build a local services market platform like E Lance.
 - HYSEA should invite individuals working on freelance basis (earning \$500 to \$1000 per month) and ask what HYSEA can do for them.
 - If the initiative succeeds, it could lead to a reduction of the educated but unemployed sector (subject to qualification process by HYSEA).
- Ultimately HYSEA has to create more successful entrepreneurs and increase “Hyderabad Domestic Product”.

Operations

Feedback on Eco System

- Cost structure
 - Shared technology infrastructure that could include Rational (IBM) testing tools to improve quality of applications. HYSEA should facilitate a discussion with state government and vendors which could be a win win situation for all.
 - For example, Hong Kong Technology Park has a shared Nano Technology facility.

- Cutting edge practices in HR management
 - Internationally benchmarked practices
 - Shared platforms for delivery of HR services. Government of Singapore enables access to SAP solutions on ASP model.
 - Facilitation of Hewitt services to SMEs at affordable rates.

Operations (cont'd)

Eco System...

- Learnings from CII and FICCI efforts in SME sector should be incorporated in HYSEA activities.
- In the CII SME forum they have developed a framework to strengthen SMEs.
 - They picked a cluster of ten small organizations (1 to 10 crores Sales) in the manufacturing sector.
 - They applied some criteria to assess whether these organizations would be suitable for intervention. Commitment of the CEO is crucial.
 - They picked very specific dimensions on which to improve operations. Quality, Energy conservation, and Cost management.
- They had monthly meetings to share the learnings. The initiative is headed by an experienced Counselor.
 - The first stage of the initiative took 12 to 18 months to complete.
 - If HYSEA can enable such a cluster for S/W SMEs, Mr. Ramesh is willing to give strategic inputs to get the initiative started.

Operations (cont'd)

Specific Feedback

HYSEA should enable the following activities:

- Guide SMEs to benchmark their performance and infrastructure in a given domain.
- Independent Testing services (such as NSTL and others) at more affordable rates to members who are product organizations?
- Global Certifications at concessionary rates for CMMi, ISO, e Security.
- Beta sites for product organizations, at prospective client locations through its overseas alliances with Software Associations?
- Forums for product companies should be created by HYSEA as they have a different set of challenges.

Operations (contd)

- Bring the global leaders in different domains, who normally visit the big cities in India to Hyderabad, as part of their technology seminars. This would enable excellent exposure in various domains (such as GIS, etc.).
- Forums to help share knowledge and practices would be helpful, especially at the employee to employee level.
- Prepare booklets on Legal issues, Tax matters, Cost Management, and best practices.

Consulting Resources Required

- HYSEA should enable a data base of domain experts in various verticals for both domestic and overseas geographies.
 - For ADM services.
 - For evaluation of product fit to new verticals (ex: Vortex product fit for construction industry, by someone at Maytas or Satyam).
 - Can also enable references/ ratings/ customer opinions on such consultants.
- Government Tenders
 - Government tender document management requires specialized skills. Consulting resources at affordable rates should be facilitated.
- Quality
 - Enable training for quality certifications such as ISO, CMMi
- Finance
 - Determining valuation of companies.

Consulting Resources Required (cont'd)

- Legal
 - Compliance issues (provisions in PF, ESI, etc.)
 - Licensing agreements for product organizations (ready made templates).
 - Taxation aspects of product development investments.
 - Intellectual Property issues (related to Manufacturing, Process, Software).
 - Transfer pricing
 - Structuring of Customer contracts and subsequent management.
 - Set up of offices in overseas geographies.

- HR
 - Employee contracts, notice period, etc.
 - Performance appraisals that help to identify leaders early.
 - Best practices
 - Periodic regional compensation studies (Southern region).
 - Managing components of compensation to make it more tax efficient.

- Insurance
 - For employees, premises, liability coverage, etc.
 - Concessionary rates for premiums through HYSEA.

Human Resources

Recruitment

- Values and culture (mindset) of young work force needs to be made healthy.
- Career orientation awareness among the fresh graduates can influence longevity in a given assignment by accelerating maturity.
- Curriculum in engineering colleges may need to be revamped
 - No emphasis on architecture (some views against this).
 - In depth knowledge not given.
 - Small advisory council may be formed (drawn from various organizations, retired professors from IITs and good colleges).
- HYSEA can create a platform to enable recruitment from colleges in tier 2 & 3 towns with some commitments on part of candidates.
 - include mechanical and electronic engineers.
- Students from polytechnics, with a three year diploma, normally complete their B.Tech while working. They tend to be dependable resources and are more likely to stay with the employer longer.

Human Resources (cont'd)

Recruitment...

- Mixed feelings about present status of JKC Centers.
 - Eco system has to be fixed in terms of new S/W, faculty, and new labs. Can HYSEA enable with Government help?
 - HYSEA can enable partners for the Center. Ex: Guest faculty from S/W organizations.
 - Each Center can concentrate on a particular domain.

- After the main recruitment season is over (for freshers), can we collect data on
 - Who hired from where.
 - Updated information on colleges/ statistics.
 - Salaries offered etc.
 - Can we publish a small report (around May/ June) to have an overall view of trends in hiring? this would be similar to reports published by Management Institutes.

- It is difficult to locate experienced employees in tier 2 & 3 towns.

Human Resources (cont'd)

Recruitment...

- HYSEA should enable a mechanism to cross check information given by candidates in the companies that they join, to check misrepresentation.
- In lateral hiring at the middle management level, subject matter testing becomes an important issue. Domain specialists need to be identified.
- Freshers/ experienced people are risk averse to join a start up operation.
- HYSEA should perhaps ensure compliance of its members' employees with data entry into the NASSCOM registry of skills.

Human Resources (cont'd)

Training

- Regular refreshing seminars (every six months) on:
 - Basics of structuring customer contracts, legal and taxation issues. This could be 2 to 4 hours seminar for different types of organization.
 - Data Base of consultants to be maintained for more detailed consultations.
- Management and Leadership training is essential for middle and senior level positions. HYSEA help is required.
- Project Management training for mid level managers should be continued as HYSEA used to do earlier (sponsorship of two seats per SME). Difficult for SMEs to access such training at a reasonable cost.
- At one level below Middle Management, HYSEA could enable training in soft skills, client interaction, quality initiatives/ awareness, team building and cross functional exposure.
- Enable technical certifications such as JCP, etc. at concessionary pricing.

Human Resources (cont'd)

Training...

- HYSEA should ally with SPIN in offering various seminars.
- Other training capsules of interest to SMEs should also be identified and addressed.
- Locally based faculty teaching between 5 P.M. to 8 P.M. is ideal.
- Training has to be done in a big way in ITES.
 - American Association of Medical Transcription.
 - Call Centers.
 - Other domain competencies.
 - State government has initiated some work in these areas.
 - NASSCOM has taken an initiative in this space but it will take time.
- Can HYSEA enable Centers Of Excellence (COE) at various universities using its influence with Government and private institutions?

Human Resources (cont'd)

Retention

- Presently, for BPOs, there is a non poaching agreement. But it is fragile.
- HYSEA should list candidates who depart abruptly without ensuring continuity. The listing company would bear the liability for any adverse consequences (some were against this idea of a “Rogues Gallery”).
- HYSEA should promote better understanding between SMEs and the large players in order to prevent disruptive departures by associates. Rules of disengagement should be drafted and agreed upon, especially for senior people.
- Loyalty of middle management is a big issue. They do not have the maturity to reciprocate goodwill. When they leave, other managers get demotivated.
- Advice on best practices and wage structure would be helpful.

Human Resources (cont'd)

Retention...

- Employers also have to be educated and sensitive about the commitments that the associates are being asked to sign.
 - Different models can be used to ensure commitment.
 - Some companies (EIT) are doing interesting things with components in compensation and appraisals process.

Knowledge Repository

- Generic Process assets/ Templates/ Policies which can be customized to a specific organization. Saves time.
- Best practices including those for technology management.
- Benchmarking studies (ex: region based salary surveys).

Risk Management

Disaster Recovery Planning (DRP)

- A proper Business Continuity Plan (BCP) is essential to convince overseas clients to outsource work to them.
- Can HYSEA enable common facilities for DRP for the SMEs through STPI?
- There could be 10 to 20 seats per SME on a Plug and Play (customized/preconfigured basis).
- Pricing needs to be worked out. For single location SMEs, it would be ideal.

Risk Management (cont'd)

Fire Risk

- They would like to be educated by the Fire Department to conduct self assessments for fire risks.
- This would enable them to put pressure on the builders to make the necessary changes.
- What are the third party fire risks they incur when fire starts in their premises and spreads to other organization premises?

Funding/ Banking

- Indian VCs tend to look at number of employees (500 to 1000) to get a feeling of comfort. Generally do not invest in product companies.
- Brand creation for Hyderabad companies may attract international VC funding.
- Should embed “informal” chats with VCs into its SME activities. This would facilitate SME understanding of how the international VCs think and function.
- Venture Capital (VC) funding is the only way to put proper controls on software companies. However, VC funding may continue to be a tricky issue.
- At some point in the future, HYSEA could become an incubator. This would need to be incorporated into the charter of HYSEA.

Funding/ Banking (Cont'd)

- Banks charge very high interest rates for SMEs
- Can HYSEA enable opening of bank accounts for SMEs which do not have a local entity in the host country? Can avoid transaction fees.
- Bill discounting facility would be helpful instead of working capital loans.

HYSEA Scope And Strategic Alliances

- HYSEA should examine whether it has the strength to accomplish its tasks alone or should it ally itself with other powerful bodies such as CII and NASSCOM.
 - CII has a direct membership of 6000. Indirect membership (through Associations) is 75000.
 - A strategic alliance can be considered.

- While NASSCOM is operating at a global level, HYSEA should seek to operate at a regional level.
 - It should try to enable the ecosystem elements in tier 2 towns also. It should rename itself as APSEA.
 - Gaming, Entertainment, and Animation domains should be encouraged in Hyderabad.
 - The presence of a national TV channel in Hyderabad will improve local infrastructure.

HYSEA Scope/ Strategic Alliances (Cont'd)

- There should be cross membership/ activities with Electronics Industry Association of Andhra Pradesh (ELIAP) and Semiconductor Association. This would be very useful for organizations in the Embedded Technology domain.
- HYSEA should have more entrepreneurs in its Managing Committee.

Conclusion

- A number of issues have been uncovered in the interviews conducted.
- We would seek active feedback from SMEs in ranking the priorities of these issues.
- HYSEA Managing Committee would then short list these priorities and develop action items.
- A sustained effort and interaction would be required by both HYSEA and the SMEs to create a significantly better enabling environment.
- A certain tolerance for failure would also be required when some of the initiatives may not work as well as expected.
- Once the action items are prioritized, a metrics driven progress monitoring approach would be required to ensure continuity of focus and tangible returns on allocated resources.