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Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance

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Business Development Services for Small Scale Enterprises in India: A Case Study of Hyderabad, Andhra Pradesh

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

A Study undertaken for
The Rural Development Group
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Summary

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

On the demand side it was found that SSE seek two basic types of services. The ***"transactions related services"*** refer to such things as assistance in keeping accounts, labour records, filing of returns, complying with regulations which are time bound and rigid. The outcomes in this category are more tangible. The ***"strategic services"*** refer to non-immediate issues that would have lasting and impact on the future of the business of the SSE.

It was found that the ***transaction related services*** are used more often. But the specialists offering such services may not restrict themselves to those transactions. Chartered Accountants typically straddle both types of services. They manage accounts, file returns, fix income tax problems, negotiate loans, help in capital structuring and even source other BDS providers. The position is unique and has arisen because the SSE trust them and usually have a long-standing relationship.

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 that are perceived to be large.

As a result those SSE who realise they need strategic services make do with informal and patchy discussions with acquaintances. Market compulsions have led to emergence of propaganda-cum-distribution consultants in the Pharma sector. There were other instances of client-pull as well. The first is due to introduction of Modified Value Added Tax (MODVAT) in case of Excise where the clients prefer SSE paying excise and thereby breaking the mindset of being out of excisable limit. The second instance of client-pull is of International Standards Organisation (ISO) certification where it made sense for the larger units to source material from ancillaries that are ISO certified. Both these opened markets for BDS providers. An additional factor for creating demand is an element of subsidy available from the government, in case of solar-photovoltaics and ISO.

On the supply side, most BDS providers work with a range of clients. Even the SSE they work with are bigger and more alert. The transaction related service providers work with a range of clients. The perception is that SSE seek patchy solutions and do not maintain a relationship. They also make miserly paymasters. The BDS providers in strategic services feel that there is a gap between the SSE requisition of services and what they need. Most of the SSE are not aware of even the contours of the problems they will face. Some of them also feel that SSE wish to revel in their perceived omniscience.

The study concludes that at this stage it is not possible to measure the impact of BDS. But the most pressing need is to create awareness among the SSE that they need BDS beyond transaction related services. 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.

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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 were 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 started the study with our initial position based on our 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. Specifically, 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. 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 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 associations 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 has SETWIN, which trains individuals to seek self-employment and promote entrepreneurship, apart from the several other organisations servicing the small industry. SETWIN has been conducting training programmes in the automobile service sector, and in software sector. 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 Pharma 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 Pharma industry, it also talks about the other sectors. This plan involves building infrastructure, knowledge, marketing and other facilities. Apart from the Pharma 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 development of the state. The document 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 Entrepreneurship Development Institute of India – the other team conducting the study in Calcutta - 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.

2.2 Small Scale Enterprises - Sample and Sectors:

We selected the sectors on a purposive basis. Pharmaceutical (Pharma) 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 Pharma 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 Laboratories and Aurobindo Pharma as possible role models for small Pharma Units. Secondly, with the increased tightening of patent norms, small Pharma 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 21 Pharma 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 relations 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 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 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 is 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-ups. Instead we looked at the food sector as a whole - including some larger ones. These included condiment suppliers, mineral water and soda makers, ice cream units, bakeries and some dairy units. We have a total of 24 units from the food sector.

The fourth sector we picked up was computers. In this sector, we 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 will analyse their role in detail later. We had a sample of 21 units.

Data was collected using an interview schedule with ample scope for quantification. Apart from this qualitative data was also collected which we have tried 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.

2.3 BDS Providers - Sample:

A total of eleven 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.

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

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

	Average Capital Employed (Rs. mns)	Average Working Capital (Rs. mns)	Average turnover (Rs. mns)	Average employes (Nos)	Legal Status (Nos)	
					SoleProp/ Partnrship	Compny
Pharma	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 Pharma 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			
		Busn ss	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 were identified, we found that we could classify BDS into two broad and distinct categories - BDS related to transactions and processing of transactions and BDS related to strategic initiatives. One of the BDS providers- Sathguru Management Consultants - brilliantly did this for us and we find that the data seems to support such a categorisation. In both the categories, the SSE largely tended to try and find solutions 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, 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 transaction related issues- most of them choosing to maintain records, file returns and solve problems – all on their own (with some informal help from contacts). It was only in case of problems with accounts that the SSE sought help to sort them out - usually going to the chartered accountants.

Table-3 gives the sector-wise details of transactions based BDS that was universal in nature. A very interesting part is that that around 20% of the SSE sought external help for even maintaining their records. Sector-wise, this response came from the Engineering units (see highlighted figures in Table-3). This was because the units in this sector were really small in comparison to the other sectors in terms of capital employed and turnovers. They also employed the least number of people on an average (Table-1). Another reason might be relating to the formal educational qualifications of the promoters. Of the total 29 non-graduate respondents, 17 were from Engineering (Table-2). Additionally the number of transactions compared to the other sectors were significantly lesser and therefore it did 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 issues relating to pollution control and other legislative requirements, the SSE either did not fall under the relevant law or managed the issues from internal resources. In case of units falling under the legislative provisions they managed their affairs in active collaboration with the lower employees of the departments - getting them to maintain the records in order, for a small fee. These included the factories, boilers and departments where the issue involved was of periodic inspection.

In fact, it emerged in one of our interviews with a BDS provider that SSE seek outside help only in cases where there was an issue of interpretation of law. This usually related to Central Excise where there was a scope for interpretation. Even this was getting simpler over time. In case of income tax, the law had become clearer. With the simplification of policies and procedures, introduction of consistency and continuity during the last decade, the need for consulting was 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 what 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 not hire a BDS provider for any transaction related issue. An overwhelming number (63 of 77) 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 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 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, SSE depended on friends' circle, business circles and industry associations. Pharma and Engineering firms depended on the business associates/industry associations more than the other sectors. It is clear from Table-4 that at least as far as transactions related BDS is concerned, the providers were 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

3.3.3 Demand for BDS on strategic issues:

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

On the usage of services, we had twenty questions on issues that were strategic, where the SSE may have 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 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, client identification, segmentation, logistics, packing, 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 would 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 help. The most significant area where SSE resorted to external help was in seeking term loans and working capital limits from institutions (Table-5). This function normally involved writing a project proposal including financial projections. In some cases it also involved re-building the past accounts to seek finances. Usually this service was offered by their chartered accountant, who, helped the enterprises not only in preparing the reports, but often in getting the loan approved with the help of the manager. The chartered accountant charged a nominal amount for providing this service. It is to be noted here that the external help was **not** sought in generating finances from informal sources or from institutions like Non-Banking Finance Companies (NBFCs) or Chitfunds (only 2 units sought help in getting funds from informal sources and 7 in getting funds from NBFCs/Chit funds). This essentially means that even in services that are strategic in nature (capital structuring), help was sought only for the transactions part of the deal.

The next area where SSE sought external help was in seeking help for marketing related activities (promotion, branding advertisement and pricing). Even this, 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 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

Pro-active Financiers: Creating 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 promoter, 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 interested in environmental issues. 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.

we look at the different sectors. In the engineering sector, external support was sought for generating capital - both term loans and working capital limits. Most of the marketing related support was sought by the Pharma industry. This phenomenon is due to the existence of propaganda-cum-distribution consultants specific to this sector - an issue we will deal with in 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.

3.3.4 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 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 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 in the market. The most significant issue here was relating to the conduct of market surveys where 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. 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 from 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 the respondents indicated that they were either not aware of services being provided, or thought that the services available were not of good quality (2 or less on a five-point scale). The indication from the demand side is that, there is little awareness about the possible existence of BDS (Table 6 and 7), and where there is awareness, the quality perception is low. Table-7 gives the most significant issues on which SSE were not aware of anybody providing the necessary services. On all other issues, while they were aware of a provider, the perception of quality was low.

Sector wise, the computer sector seemed to think that BDS providers were not available for product design. In other areas where 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 Pharma 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 Pharma 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 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 Pharma sector to seek more information on the trends because of patent norms being imposed, they were under the impression that the current technical journals and support they were getting from the market was sufficient.

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.

Across the sectors and segments, data indicates that 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.

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

On why SSE would not hire a consultant or an external BDS provider - the answers were in two different directions. On one hand the most significant reason given was that most of the SSE were cash strapped and could not think of hiring a BDS provider (28 of 90). On the other, a good number of them (26 of 90) said that BDS providers hand out 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 reinforces the earlier perception of "awe" - which makes them think that BDS provider is un-affordable and the feeling that the providers are not good value for money. However the other two answers - that the entrepreneur was too busy to devote time to BDS providers or that BDS providers might give away confidential information was not borne out by the data.

A small 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 Pharma 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 while the issue of trust and availability of time has not been borne out by the above data, it did crop up during informal discussions. We 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 of losing control and entering uncharted territories. This is quite a contradiction - considering that he took the first step of being an entrepreneur. There were a small number who never thought of hiring a professional BDS provider for the fear of being ticked off for mistakes, or of being charged a hefty amount. This, some providers termed as "awe" which is now being addressed to create a larger market for BDS.

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 their most pressing need was in terms of services at this point in time. Not very surprisingly 34 units said that their most important bottleneck was marketing. This was overwhelmingly so in case of 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 told that they face a problem in convincing the bankers about 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 - agricultural land or house property of the promoter. 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 Mind-set Issue

Apart from the other issues there is an issue pertaining to the mindset of the SSE. An entrepreneur in the Pharma 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 get, 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 don’t need BDS provider for that!"

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 managed 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 SSE thought that they had an immediate problem was in design of new products (15 of 90). Again the most significant demand for this came from the engineering units (7 of 24). On an overall analysis it appears that the engineering units seem to be entangled in problems related to marketing - due to dependence on a single client and have never tried to innovate. Now, when they want to grow, they see either the product design or 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 expensive. 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.

3.3.6 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 SSE shied away from using professionals, in almost all the cases where they were used there was evidence that the SSE in fact paid the fees. This was particularly true in case of transaction related BDS. On BDS services on strategic issues, the major problem was whether the entry level fees to be paid to any BDS provider was going to be value-for-money at that level. So in most of cases they would tend to use the transaction related BDS providers to do the strategic work for them, thereby producing sub-optimal results. These BDS providers however would always be paid. In every typical case they used some of their regular service providers to do some additional work for them - like the auditor who helped them to get funds. The mismatch seemed to be in the perception of "value for money".

Willingness to Pay:
The Choice of Survival Vs Growth

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

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

There are a few 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 will examine the case of

ISO certification later. While the above is an example of policy intervention, the Pharma 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 Pharma units and their inability to penetrate into the market that is fiercely competitive.

In the early 80s, most of the Pharma units - particularly from the formulation units used to have their own marketing network - individually. This meant that they maintained 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 the concept of propaganda-cum-distribution consultants emerged. These consultants take on a set of five or six small Pharma units and undertake to market the entire range of formulations through their own network. The consultants are paid a fixed amount for advising the Pharma units on market feedback, packing, formulations, preparing technical brochures and other advice they might give. In addition, they are paid overriding commissions on the sales that they achieve for each of the Pharma 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 Pharma 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 unleashed a number of trained and talented manpower into the market. While many became process consultants for the Pharma sector, there were a few who got into distribution. Added to this was the fact that several people in the marketing department of large Pharma units saw the potential and joined the breed of consultants on retirement or after considerable 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 markets through their own set of trained medical representatives. Normally there are no conflict of interest issues that 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 - 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 present themselves exclusively for a single company and promote their products. They do this by turns. Ultimately, the consultant is also interested in spreading his income stream from all the SSE 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 their clients around, 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 Pharma 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 Pharma 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 come about 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 that have similar characteristics - limited amount of branding, large and intricate distribution network and similar products to be sold. The consultant has some generic expertise in the products being handled.

3.5.1 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 BDS providers. The interviews were 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, Excise consulting, Advertising and marketing services, Propaganda and distribution consulting, web services 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 also profiled the ongoing experiment in Hyderabad to get BDS services across to small enterprises 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 Pharma 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.

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 Pharma 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.

3.5.2 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 - legal, record creation, maintenance of accounts and appearance before authorities in case of trouble. In cases that led to complications, it was usually the auditor who referred to other experts 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. Most BDS providers got the upper end of the SSE segment to come to them.

Most of the BDS providers have also drawn boundaries around themselves. Normally they do not stretch themselves beyond this boundary unless there is a perception that the request is serious or comes through known contacts. The assignments that the BDS providers accept usually depends on what their own focus is.

3.5.3 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 time the agency has been forced to watch its bottom line and rethink its vision. Now they have an innovative alternative. 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 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 an organised manner. It provides economies of scale in addressing some issues. This approach also helps the organisation to look beyond city suburbs and get into rural clusters.

The other strategy is to focus on some select sectors where there is scope for exchange of technology, market information and other aspects through international counter-party negotiations. Here, APITCO concurs with Sathguru that the sector that is opening up for support from such BDS providers are 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 taking up studies or consulting assignments on behalf of the government and 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 we described.

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, over the last few years have been articulating that the businesses of several of the Ismaili Khojas have stagnated. In response to this articulated need, the AKEPB has now hired EDA Rural Systems, a consulting firm to provide BDS to the members of its community on an 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.

3.5.4 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 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 not only manufacture machinery for 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 capital they are willing to invest. Usually Dhopeshwar entertains only those clients who are clear about the product and capacity. They then offer specialised design consulting. 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 get more number of larger units than smaller units. Since they offer design cum fabrication services, most of the clients place 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. Not many clients 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 is doing. In the past couple of years their share of income from the SSE segment has dwindled 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 with SSE as their clients, they have outgrown the segment and cater to larger clients including Government.

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 clients 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." Apart from the world-view - the budgets of the SSE are abysmally low in most of the cases. There are usually delayed payments, making the SSE an untouchable client. All these factors force 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.

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 just wants to 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 Sathguru is 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 tend to use this company for ordering their first computers and giving them the service contract for maintenance. But as the client grows, they move to branded machines, 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.

3.5.5 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 Pharma units offering both process and marketing consulting services to the Pharma industry, we 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. 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.

Market Pull - the Creation of Demand for Some Services

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

Another area where there is market pull is due to the scheme of Modified Value Added Tax (MODVAT) introduced by the central excise. MODVAT was introduced fifteen years ago. The scheme has been refined several times. Due to MODVAT the larger industrialist who falls in the excisable limits prefers to source materials from SSE which are paying excise to claim some exemptions in tax. 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, possibly reduced spawning of firms to avoid excise and created a demand for the services of an excise consultant.

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. There are a number of service providers in this segment and competition exists. 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 a listing in the journals devoted to central excise does help to provide 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 institutions catering to larger units and individual consultants catering to the upper end of the small industry. The type of clients he gets are somewhat self-selected - those who are open to be convinced or approach a consultant on their own. Most of the clients are first generation entrepreneurs.

One reason why the consultant approaches the clients directly is to get over the "awe" factor. He thinks that there is a lot of jargon surrounding consultants and a feeling that they are 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 or an awareness workshop he makes 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 industry associations. This gives him legitimacy to approach the units. The government subsidises this activity by reimbursing the costs of ISO certification up to

Rs.100,000. This makes the job of selling the idea much easier. While the enterprise has to spend this amount initially, they 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 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 showed a fair degree of comfort and happiness in dealing with the small industry. It was particularly so with the ISO consultant has seen this as an untapped potential segment for focussing his work.

3.5.6 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 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, and ISO, it was clear that a significant part of the referrals came from the 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 asking for infrastructure to be improved in the area - better roads, power and transport facilities. They have organised seminars on larger economic issues affecting the SSE. The SSE 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.

3.5.7 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 had only one SSE as his client. However with some of the SSE in export business, this service might catch on - particularly since this is 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 SSE sector very vibrant. We have some very clear opinions from the BDS providers. Some indications have clearly emerged from this study.

It is evident that the most pressing need of several small industries is to generate awareness about the macro events in some specific sectors where SSE are significant in numbers. The effect of patents is a clear case with the Pharma industry. So, donors like DFIDI could help in producing a perception study. Something could be done to change the mindset that consultants are not affordable, solutions will be big and not 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 its own time.

A clear indication that came from some of the BDS providers was that routing the support through 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 – which seems to be most natural route any donor agency will take. The BDS provider insisted that NGOs have not specialised in 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 SSE in the past. They have suggested a polyclinic format 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 designated 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 the designated institution. It might be worthwhile to examine such an idea.

Apart from the above, the channel through which this problem may be addressed is the small industries associations. The associations are not-for-profit and are in the neighbourhood of SSE. Each of these associations can focus on the specialised needs of their members and would give a focus to the entire program. It would give legitimacy to the exercise 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 a good route for channelling any support might be the industry association. 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 SSE use friends/business associates and industry association 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.

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

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 without 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.