

FDI, Service Economy and Challenges in Services Marketing With Special Reference to Services Sector in India

Mr. A. Grace Antony Rose.

Assistant Professor (Senior Grade), Department of Management Studies, Sri Ramakrishna Engineering College.

I. Introduction

1.1 Service Economy

Indian economy is classified in three sectors — Agriculture and allied, Industry and Services. Agriculture sector includes Agriculture (Agriculture proper & Livestock), Forestry & Logging, Fishing and related activities. Industry includes Manufacturing (Registered & Unregistered), Electricity, Gas, Water supply, and Construction. Services sector includes Trade, repair, hotels and restaurants, Transport, storage, communication & services related to broadcasting, Financial, real estate & professional services, Community, social & personal Services.

Services sector is the largest sector of India. The services sector in India has remained the most vibrant sector in terms of contribution to national and state incomes, trade flows, FDI inflows, and employment. According to the Economic Survey 2015- 2016. The services sector contributed almost 66.1% of its gross value added growth in 2015- 2016 becoming the important net foreign exchange earner and the most attractive sector for FDI (Foreign Direct Investment) inflows. Despite the slow down in the post crisis period (2010 - 2014), India showed the fastest service sector growth with a CAGR (Compound Annual Growth Rate) of 8.6% followed by China at 8.4%. In 2014, India's services sector growth at 10.3% was noticeably higher than China at 8.0%. As per the ILO (International Labour Organisation) report on "Global Employment and Social Outlook : Trends 2015" job creation in the coming years will be mainly in the service sector.

1.2 Foreign Direct Investment

In 2014, FDI in India at 34billion US\$ increased by 22% over 2013. There has been a significant growth in FDI inflows in 2014- 2015 and 2015- 2016(April – October) in general and in Services Sector in particular. In 2014 - 2015, FDI inflows to the Services Sector grew by a whopping 70.4% to 16.4 billion US\$. This rising trend is continuing in the first seven months of 2015 – 2016 with the FDI equity inflows in the services sector growing by 74.7% to 14.8 billion US\$. Significant FDI related liberalization has taken place in a number of sectors to ensure that India remains a increasingly attractive investment destination.

For an economy like India which has tremendous potential, FDI has had a positive impact. FDI inflows supplement domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth. This paper on "FDI in Service Sector" speaks about the contribution of FDI to the economic growth and challenges faced by Indian government and corporate, both indigenous and foreign service sector players towards FDI decisions.

II. Theoretical Background

2.1. Foreign direct investment : Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP.

2.2. Gross Domestic Product (GDP) : Gross domestic product, more commonly referred to as GDP, and is by far the economic indicator most referred to when one is attempting to judge a nation's economic development. GDP can be calculated as follows:

$$\text{GDP} = \text{private consumption} + \text{gross investment} + \text{government spending} + (\text{exports} - \text{imports}), \text{ or}$$
$$\text{GDP} = C + I + G + (X - M)$$

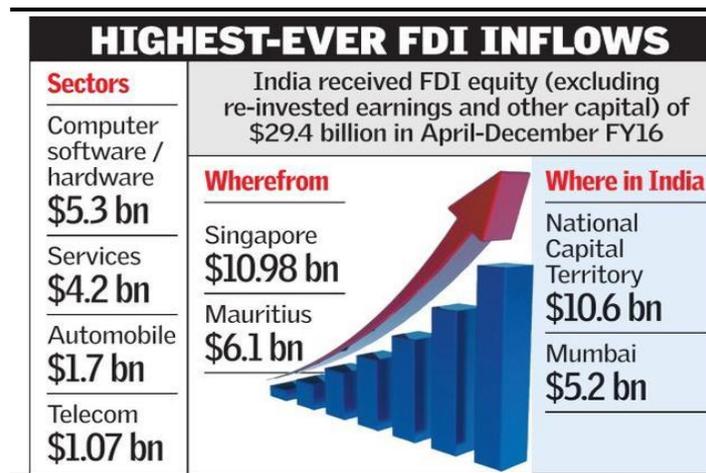
2.3. Services Sector : Services Sector is the part of the economy that includes individuals and businesses that produce services rather than goods. The service sector includes education, finance, communications, health care, utilities, wholesale and retail trade, and transportation.

III. Methodology

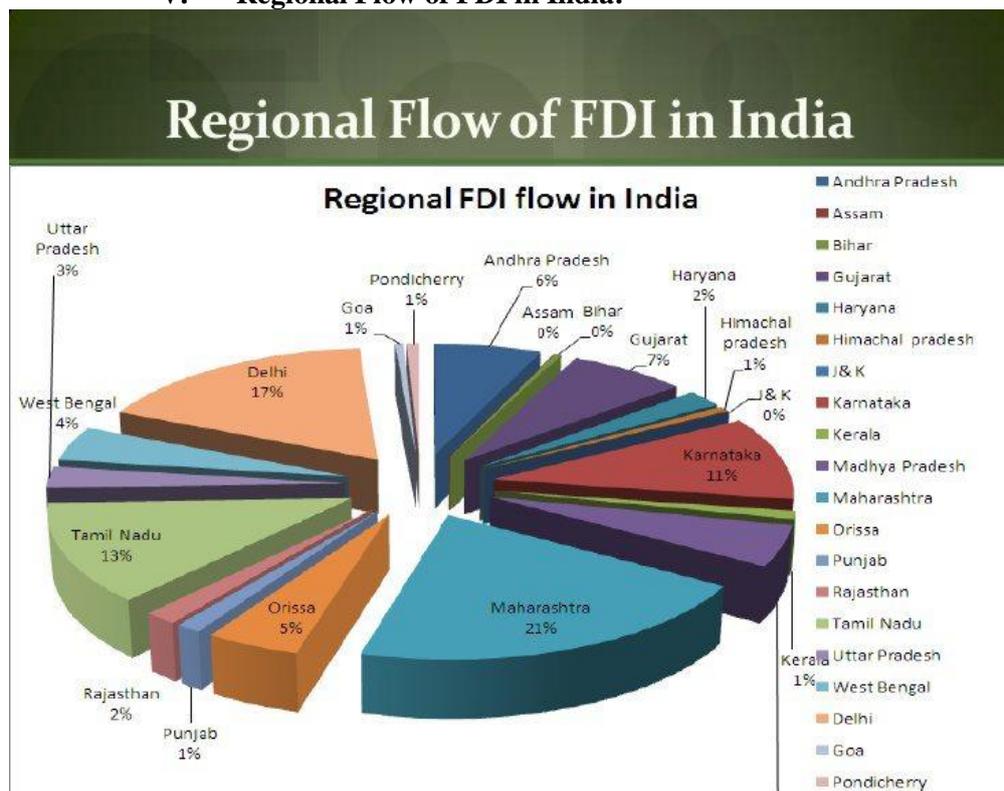
This study is entirely based on the secondary data from various government published sources like Economic Survey, RBI Bulletin, CMIE, IBEF, Trading Economics, World Bank, OECD, FinMin, CEIC, Ebsco, JGate. A detailed report based on desk research is prepared with statistical figures, corresponding to the latest information.

IV. Share Of Top Investing Countries Fdi Equity Inflows

There is a prospective potential being forecasted that, 2016 will record a constructive growth as Government takes measures to ease FDI norms and attract more FDIs in almost all the sectors.



V. Regional Flow of FDI in India:



Source: UNCTAD, 2015

VI. FDI in Indian Services Sector:

21st Century has brought incredible structural changes in the global economies, because of the remarkable contribution of the services sector. The growth of Services Sector is phenomenal in recent decades. The dynamics of the services sector have introduced new growth impulses stimulating investment, income, consumption and employment. As the growth rate of the services sector has accelerated after economic reforms since 1980s, there has been different story of India's economic growth. By the end of 2005, India emerged as one of the fastest growing economies in the world, by the outstanding growth of services sector. India's Services Sector contributes to GDP. Government of India takes active and proactive measures to increase the growth rate of services sector, by inviting Foreign Direct Investment in this sector.

VII. India's Services Trade

Services exports have been a dynamic element of India's trade and globalization in recent years. India's services export grew from 16.8 billion US\$ in 2001 to 155.6 billion US \$ in 2014 which constitutes 7.5% of the GDP making the country the 8th largest services exporter in the world. The overall openness of the economy reflected by total trade including services as a percentage of GDP shows a higher degree of openness at 50% in 2014 – 2015 compared to 38% in 2004 - 2005. India's Services Import at 81.1 billion US\$ grew by 3.3% in 2014 – 2015. The Government has taken policy initiatives to promote services exports which include the Service Export from India Scheme (SEIS) and organizing Global Exhibition on Services (GES).

VIII. Service Economy – Major Service Industries Contribution

8.1 Tourism: Tourism is a major engine of economic growth, and a generator of employment of diverse kinds. According to Economic Survey India's tourism growth which was 10.2% in terms of foreign Tourist Arrival (FTA) and 9.7% in terms of foreign exchange Earnings(FEE) in 2014 decelerated to 4.5% in terms of FTAs and fell by 2.8% in terms of FEEs in 2015. The lower growth in FTAs and fall in FEEs in 2015 is due to negative or low growth in FTAs from high spending tourists originating from European countries like France, Germany and UK. However, domestic tourism continues to be an important contributor to the sector providing much needed resilience In 2014 it grew by 12.9%. The top five states in domestic tourist visits in 2014 are Tamil Nadu, Uttar Pradesh, Karnataka, Maharashtra and Andhra Pradesh. In 2014 - 2015, Government has launched two schemes for thematic development of tourism, these are Swadesh Darshan and National Mission on Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD). To promote medical tourism, the Government has launched India's Healthcare Portal and Advantage Health Care India.

8.2 Shipping & Port Services : Around 95% of India's trade by volume and 68% in terms of value is transported by sea. As per UNCTAD, India with 11.7 million twentyfoot equivalent units of container (TEUs) and a world share of 1.7%, ranked ninth in 2014 among developing countries in terms of containership operations. A vision for coastal shipping tourism and regional development has been prepared with a view to increasing the share of the coastal/inland waterways transport mode from 7% to 10% by 2019 - 2020. The cargo traffic of India ports increased by 8.2% to 1052.21 million tonnes in 2014 - 2015. In India's Maritime Agenda, the target for the year 2020 is 3130 million tonnes of port capacity with an investment of approximately Rs. 2,96,000/crores.

8. 3 ITBPM Services: The ITBPM sector has demonstrated flexibility and as per the Economic Survey is expected to touch an estimated share of 9.5% of GDP and more than 45% in total services export in 2015 - 2016. Ecommerce is expected to grow at 21.4% in 2015 – 2016 to reach 17 billion US\$. India home to a new breed of young start ups has clearly evolved to become the third largest base of technology start ups in the world. Within one year the number of start ups have grown by 40% creating 80,00085,000 jobs in 2015. This emerging sector is set to get up a fillip with the Startup India programme.

8. 4 Research and Development Services: As per the CSO's(Central Statistical Organization) new method there is no separate head for R&D, it is a part of the professional scientific & technical activities including R&D which grew at 3.8% and 25.5 respectively in 2013 – 2014 and 2014 - 2015. According to the Survey, India's R&D globalization and services market is set to almost double by 2020 to 38 billion US\$.

8.5 Consultancy Services: According to the Survey Consultancy Services is emerging as one of the fastest growing service segments in India. Government has taken several initiatives like the Marketing Development Assistance and Market Access Initiative Scheme among others for capacity development of domestic consultants.

8. 6 Real Estate and Housing: This sector constituted 8.0% of the India's GVA (Gross Value Added) in 2014 – 2015 and grew by 9.1%. The sector has grown at a CAGR of 8.1% since 2011 - 2012. However, the construction sector has witnessed a slowdown in last few years due to weakening of both domestic and global growth. The Government has announced plans to build six crore houses by the year 2022 under the Housing for All scheme.

8. 7 Internal Trade: According to the Survey, Rs. 12,31,073 crore trade and repair services sector, with a 10.7% share in GVA, grew by 10.8% in 2014 - 2015. India's retail market is expected to grow to 1.3 trillion US\$ by 2020 making India the world's fastest growing major developing market. The Ecommerce market in India is expected to reach 16 billion US\$ by the end of 2015 on the back of growing internet population and increased online shoppers.

8. 8 Media and Entertainment Services: According to the Economic Survey, the industry has recorded unprecedented growth over the last two decades making it one of the fastest growing industries in India. It is projected to grow at a CAGR of 13.9% to reach 1964 billion rupees by 2019. Digital advertising and gaming, which grew by 44.5% and 22.4% respectively in 2014, are projected to drive the growth of this sector in the coming years.

8.9 Postal Services: India Posts is the largest Postal network in world. Towards financial inclusion, the number of post office savings bank (POSB) accounts has increased from 30.86 crore to 33.97 crore and total deposits in POSB accounts and cash certificate to Rs. 6.53 lakhs crore in the last one year. More than 80 lakh Sukanya Samridhi Yojna accounts have been opened. The IT Modernization Project of the Department of Posts, with a total outlay of Rs. 4909 crore, involves computerization and networking of all the post offices.

IX. Challenges in Services Marketing in India – The Ten Commandments

1. Services are intangible and so customers cannot see or hold them before they buy it. Buyers are therefore uncertain about the quality of service and feel they are taking a risk. The buyer is unable to conceptualize and evaluate a service from beforehand. From the seller's perspective he finds it challenging to promote, control quality and set the price of the service he is provide. Unlike products the intangible nature of service causes difficulties to both client and the firm.
2. Defining and improving quality in the service industry is a major challenge. Unlike products very often services are produced and consumed simultaneously. As a result service quality management faces challenges that the product industry never ever comes across. In the product industry the manufacturer gets ample opportunity to test his products before they reach the market. In case of a quality issue the problem is taken care of during the quality check and customer satisfaction is taken care of. However during service production the customer is right in front. To guarantee customer satisfaction in this scenario is a major challenge.
3. In case of the service industry the customer first needs to develop trust in the service organization before he buys their services. The client often gives more importance to the amount of faith he has on the service organization than the services being offered and their value proposition.
4. Service industry faces competition not only from fellow service industry but also from their clients who often question themselves whether or not they should engage a service at all.
5. Most of the product companies have dedicated sales staff while in the service industry the service deliverers often do the selling. Coordinating marketing, operations and human resource efforts is a tedious task.
6. Passion works for the service industry. More the passion, spirit and desire among the service staff more is the revenue generation and success generated every day. There is a direct correlation between staff passion and financial success and similarly lack of passion leads to failure in the service industry. Staffs need to be constantly motivated and efforts have to make to sustain employee commitment.
7. While testing new services is a constant challenge communicating about these services simultaneously is also not easy.
8. Setting prices does not come easily for service industry.
9. Standardization versus personalization is another major issue the service industry has to face.
10. Word – of – Mouth Communication plays a major role for the survival, sustenance and success of any service industry in India.