

# IS INFLATION HURTING THE MOST?

India is certainly groping with challenges like large financial scams and general uproar against the corruption and law and order. But since it has survived the global downturn in 2008, the industries do not feel insecure but there is still something to do to keep itself immune from all possible effects.

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**N**o one would have forgotten the financial meltdown during 2008. The Mumbai stock exchange tumbled to the all time low. The reserve bank had to adjust its CRR and REPO rate again and again to hold the market and create a balance in the financial transaction. The market had gone into the lowest pit. Every one – including the traders and buyers had lost faith on each other. There was no buying and selling. It took at least two long years to recover the market.

Even today, when the industry sees certain aberration in the market, they do not hesitate to look at various factors. The genesis of the market meltdown was the unbridled financing of housing in the US market. Today India has almost reached near same position and have also shrouded with

various other issues. For some time now the country does not have stable government. There is either bi-party or multi-party coalition government. This results in adjustment of each other's ideology and compromising with each other's wrong doings.

Every day one sees news coming from somewhere or other the involvement of top officials in kickback or siphoning of money. But the largest of all have been the commonwealth games and 2G spectrum scam where the ministers and their friends and close aides have been involved in multi-billion dollar siphoning. Even though it is sub-judice but the market is most disappointed with the way things are proceeding. The market needs the leadership should go above the issues and look at the holistic market growth than getting themselves entangled in various issues. In order to



**"DESPITE LARGE SCALE TIGHTENING OF THE MONETARY POLICY BY THE RBI AND OTHER STEPS TAKEN BY THE GOVERNMENT, INFLATION CONTINUES TO REMAIN CLOSE TO THE DOUBLE DIGIT MARK."**

**SUDHA JAGADISH, CEO, DAX NETWORKS**

bring the better of the government, there are many people jumping to the bandwagon. For example septuagenarian Gandhian Anna Hazare took to the street with his supporters to stem the corruption in India. Following him Yoga guru Baba Ram Dev also did the same thing. These people took so much of mind share of people that the government became scared of them and tried to pacify them by engaging various methodologies.

One side the country had lost so much of its citizens' money through large scams on the other hand the government instead of focussing on the development of the trade and commerce, had

spent its resources to pacify the god man and the social activist. The Jan Lokpal bill that Anna and his team have been pushing forward might be an excellent thing for the country and its people but the ways things are precipitating are ignoring the cause of technology growth at this moment.

Sudha Jagadish, CEO, Dax Networks, says, "The current market condition is unstable. The earnings and interest rate is bearish. Uncertainty and higher risk perception have deterred the investors, as they are unsure about the growth outlook. India has been forced to usher in a quantitative tightening phase to mop up excess liquidity from the banking system. Worries over inflation have caused growth prospects to dim. For India, credit growth is perceived to be still relatively strong, though moderated from its peak."

She adds, "The inflation situation in the economy continues to be a cause for the concern. Despite large scale tightening of the monetary policy by the RBI and other steps taken by the government, inflation continues to remain close to the double digit mark. RBI has hiked rates to control the money supply in the economy to bring down inflation; higher inflation translates to higher input costs, which in turn is adding pressure to the companies' earning margins. These margins are getting further depressed by higher



**"DUE TO 2G AND COMMONWEALTH GAMES SCAMS THERE IS A DELAY IN PROGRESS OF SOME OF THE OTHER LARGE GOVERNMENT PROJECTS."**

**SUBHASISH GUPTA, COUNTRY MANAGER - INDIA & SAARC, ALLIED TELESIS**



**"COMMONWEALTH GAMES AND LOKPAL BILL HAS MINIMAL TO NO IMPACT ON THE MARKET. BUT YES CORRUPTION HAS BEEN THE CASE FOR YEARS NOW."**

**VINAY SHETTY, COUNTRY HEAD - COMPONENT BUSINESS, ASUS (INDIA)**

interest rates."

According to Vinay Shetty - Country Head - Component Business, ASUS (India), Common Wealth games and Lokpal Bill has minimal to no impact on the market. But yes corruption has but that has been the case for years now. Corruption has always impacted all businesses in India since many years now. However, the market is more influenced by factors related to the IT business directly than these external factors.

Subhasish Gupta, Country Manager - India & SAARC, Allied Telesis echoes the same, says, "Yes, to a certain extent. Scams, uncertain governments in some states as well as governmental hiccups with respect to clearances for external investments, delays in completing projects are some of the reasons for uncertainty. Other reasons include high inflation, lower rate of GDP growth being forecasted. However, the good part post globalization is that with the software skill-sets India possesses, we have reached the Economies of Scale, wherein the general business sentiment is high."

Any large visible scam/corruption definitely hampers the image of the country in the global environment. Allied Telesis does big business in the government space. What the company realises that the due to 2G and Commonwealth games scams there is a delay in progress of some of the other large government projects. Officials might want to be doubly sure before concluding contracts.

But he also agrees that inflation is high and it's definitely hurting the poor to a great extent and also the middle class.

India has the virtue of reaching Economies of Scale in most of the businesses. India as a country is also looked up by most of the world as a land of opportunities. Look at the number of brands in the country and most of them are setting up manufacturing facilities too. There are various large projects going on at the moment including the airport modernization, Nuclear Power Plants/ Hydro plants, roads and infrastructure. Some



**"TODAY THE REAL FACTORS ARE THE INFLATION, PERCEIVED SLOW GROWTH RATE, RATE HIKE, RISE IN COST OF CAPITAL, UNCERTAINTIES IN WORLD ECONOMY LIKE GREECE ETC."**

**SHIBU PAUL, COUNTRY NATIONAL SALES MANAGER, INDIA, ARRAY NETWORKS**

projects have been commissioned and some have been scheduled to be commissioned and there is a deadline for each of the projects to be finished otherwise there will be huge loss to the government. By the external factors, definitely the things will get delayed and this will land the government in loss. This will compel the government to put additional tax on the consumers to replenish it. Today, the consumers are not visibility impacted by what is happening but in the long run it is not only the consumers but also enterprises – be it small or large will be affected. So saying that the scams or the concentration on the activists will surely have an adverse effect.

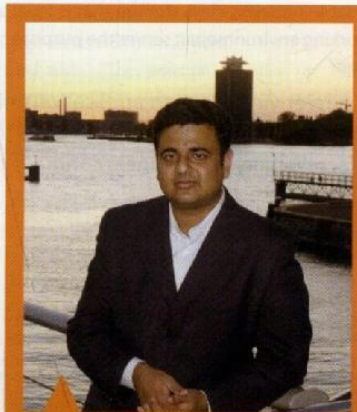
Array Networks is into structure cabling business. The company's products are mostly used by the corporate and government projects. If the projects are delayed the company will definitely suffer financially. Shibu Paul, Country National Sales Manager, India, Array Networks, says, "Customers have become more cautious on overall spending including IT. Every project is getting scrutinized and only most critical ones are getting approved. There is a push to look at options while considering IT solution. Today the real factors are the inflation, perceived slow growth rate, rate hike, rise in cost of capital, uncertainties in world economy like Greece etc."

Novell is a leading provider of infrastructure software. The company's vision is to help people and technology to work as one. Its mission is to help customers reduce the cost, complexity and risk of computing on any platform. Narayana Menon K - Lead Marketing and Strategy India and South Asia, Novell, says, "In our opinion, this is more a part of the seasonal cycle. From an IT perspective, we see that customers are moving to a more focused approach wherein there is a shift to exploring and looking for 'must have technologies' in innovative forms rather than spending time & money on 'good to have technologies'. Models like s/w appliances, SaaS, hosted services & private clouds are gaining more traction which

in turn impacts traditional IT buying. This cannot be termed as uncertainty but more as a changing trend of selecting technology deployment models which emphasize on effectively balancing business objectives with cost and deployment concerns."

He adds, "But we do not believe that the scams are solely responsible for industry nervousness. These scams do impact our business credibility, especially from a global business perspective. But beyond that, the state of the World economy and Macro Economic factors are what we watch more, again from a long term perspective."

According to him there is a tendency to always



**"INFLATION IS ALSO AN EFFECTIVE TOOL TO DRIVE GROWTH, WHEN USED IN A BALANCED MANNER TO DRIVE THE ECONOMY!"**

**NARAYANA MENON K, LEAD MARKETING AND STRATEGY INDIA AND SOUTH ASIA NOVELL**

## FOR BUSINESSES & THEIR MARGINS, THE WAY FORWARD COULD BE 3 FOLD

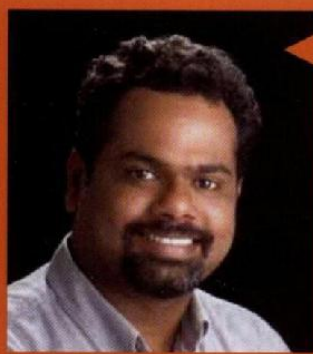
- Increase in volume of sales - this would be a no-brainer as it would be straight forward math, indicating increase in profit to counter expenses
- Increase operational efficiency thru various means at various junctures within the production cycle as well as organizational functioning
- Address how greater profitability can be brought in to the same set of business processes. This would be where the real strategy and innovation would kick in; in terms of enhancing the product/services portfolio, bundling value added services to the offering set, lucrative alliances / joint ventures as well as engaging in distribution models to enter new markets

see inflation as a villain. However, this is not necessarily so. Inflation is also an effective tool to drive growth, when used in a balanced manner to drive the economy. The challenge in India is to really ensure that inflation driven growth does not dramatically widen the gap between the rich and the poor.

From a purely business perspective, we still don't see it in a very worrisome range. Corporate houses will invariably announce substantial pay hikes to meet with the effect of rising costs of essential commodities & inflation. The added spending power will then help drive economic growth and fuel the economy further.

CSS Corp is a global ICT service provider and Vishahan Iyer, Associate Vice President - Infrastructure Management Services, CSS Corp, is positive about the Indian market. As per him the given market condition in the Europe, there is some amount of uncertainty. However, India Inc today is self sustainable and has lot of potential to develop revenues in house, these speculations today don't affect the market. And this uncertainty is not reflecting on IT spends and the mood currently.

The IT sector in India has withstood many a tests time and again, the slowdown was a huge learning for the industry, however, with innovation and the need for advanced technology got it back in action. Undoubtedly, The Indian IT industry has been one of the strongest surviving sectors in the last three decades. And external factors such as these will not reflect on its performance. These can probably affect the nation's overall economy, but IT as an industry remains to be unaffected by this so far.



**"THE KEY HERE IS TO KEEP INNOVATING AND PACKING THE SERVICES IN A MANNER THAT IS COST EFFECTIVE AND TIME SAVING FOR THE CLIENTS AS WELL."**

**VISHAHAN IYER**, ASSOCIATE VICE PRESIDENT - INFRASTRUCTURE MANAGEMENT SERVICES, CSS CORP

But yes the swelling costs are of course a concern for IT companies today. Fortunately, our thought process is so tuned into saving and cost cutting even post the slow down, we are in a good shape today. While cost is inversely proportional to margins, we need to be cautious and spend wisely.

The key here is to keep innovating and packing the services in a manner that is cost effective and time saving for the clients as well. For an IT Services Company to survive it is mandatory to keep the processes simple and user friendly, plus consulting at the right time goes a long way in keeping up the margins.



**"WE DON'T SEE ANY VISIBLE UNCERTAINTY IN THE MARKET, AS THE MARKET FOR IT HARDWARE IS STILL GROWING EXPONENTIALLY!"**

**SUNIL GREWAL**, SALES HEAD - INDIA OF GIGABYTE TECHNOLOGY

GIGABYTE Technology India is the component vendor. The company has a rich presence in motherboards. Sunil Grewal, Sales Head - India of GIGABYTE Technology says, "We don't see any visible uncertainty in the market, as the market for IT hardware is still growing exponentially. The IT sector has been a main driver of India's economic growth over the last few years, and we expect this trend to continue in the near future."

As per Sarfaraz Dhanji, Country Head, SMC Networks, "Yes there is a little uncertainty but there are huge chances of the market gaining stability. Markets are definitely blooming up hence results are showing a high. Also there is definitely a great way for IT infrastructure."

iValue InfoSolutions is a Value added partner for IT Security, Storage & Managed enterprise wireless space. The company's mission is to empower organisations effectively manage their "Digital Assets" which are critical business differentiators, for protecting and growing the business. S. Sriram, CEO - iValue Infosystems Pvt. Ltd., says, "For any IT company willing to understand and address customer business and IT challenge, there is no dearth of opportunity especially in growth market like India. Yes growth comes along with aspects like inflation which leads to higher interest cost. These are business challenges which

come along with growth opportunity which needs to be addressed and managed."

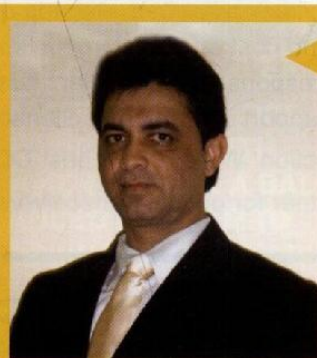
Ashok Dash, General Manager & Business Head, WeP Peripherals Ltd. is very strong in his conviction. He says, "Market place is always uncertain but, SME customers are like lower middle class people. They will spend, whatever is necessary. Unless, there is value for money for them, SME is always uncertain." He adds, "Why should 2G affect now a SME customer or for that matter the service providers of SMEs? Is there a business model around 2G there to-day in the market? No. Let it become a business model first. Similarly whatever happened in CWG was good for everybody. At least SMEs will think twice before investing in these activities in future. Why Wipro did not pick up any order from CWG? It is a matter of value system of the organisation."

### **Given the growing inflation what Govt. should do?**

As per Sudha Jagadish of Dax networks, the government should go ahead with reforms like decontrolling diesel, LPG prices, high international oil prices, hike in minimum support prices for the upcoming agriculture season are some of the factors that constitute the upside risks to inflation.

Further, the government could improve the efficiency in tax collections. The tax departments of the government should leverage information technology tools and evolve a process wherein refunds become automatic. Further, steps should be taken to widen the tax base in the country. Today, just about 3 percent of the people in the country file tax returns. Efforts of the government should be geared towards increasing this base of tax payers and curbing tax evasion. This would automatically lead to a jump in tax revenues.

As per Vinay of Asus, Government should come up with schemes to promote the hardware industry in the country. Hardware manufacturing needs to grow for the market situation to



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**"FOR ANY IT COMPANY WILLING TO UNDERSTAND AND ADDRESS CUSTOMER BUSINESS AND IT CHALLENGE, THERE IS NO DEARTH OF OPPORTUNITY ESPECIALLY IN GROWTH MARKET LIKE INDIA."**

**S SRIRAM, CEO - IVALUE INFOSYSTEMS PVT. LTD.**

improve drastically. In certain cities octroi plays a major dampener to the business. The government also needs to invest in the right infrastructure to enhance the market situation. Broadband connectivity will also help to further grow the market. Advance technologies like fibre optic internet should be available more widely. There should also be easier and more accessible norms for companies and MNCs wanting to setup operations in India.

Narayana of Novell believes government should focus on building confidence that rule of law and good governance will prevail and provide conducive policy and tax frame works, and leave the rest to the economy. He adds, "Not many people realize that for the IT industry, it was not really the private sector that pulled them out of the slump in the domestic market. Over the last 3 years, the government has been one of the largest IT spenders in India, providing huge opportunities for IT companies to tap in to. This has fundamentally altered the equations in the IT industry as well as the way we plan for and do business. A simple example is the rise in influence of large system integrators who can take on the complex Build, Operate, Transfer projects of the government. And the way we have had to get used to far longer sell cycles with larger revenue potential at the end."

As a VAD who sees the moments in the grass-roots level, iValue expects Government should continue to invest and leverage IT for all citizen initiatives. This will help in increasing responsiveness, bringing in transparency and avoiding corruption. Government should also ensure working capital is available to business at competent rates. Government should rollback measure such as payment of service tax by 5th for transactions done till 31st of previous month. Such steps worsen the cash flow for SME/SMB along with partner community which is already reeling under high interest cost and low liquidity regime.

Sunil of GIGABYTE opines that the Govern-

ment has to take enough measures to promote exports, offer easily available credit facilities, especially for small businesses, enhance tax collection mechanism so that more tax is collected without paining the industry, and enhance money allotted for social welfare activities, among others.

### Is it right time for SMEs to invest in technology?

With growth opportunities returning, the timing is right for any business to ride the growth wave. SME will have to compete with established larger entities in their respective fields to grow. Technology investments and innovations are the only way



**"GOOD HUMAN RESOURCES ARE ONE OF THE MOST IMPORTANT COMPONENTS OF THE COMPANY'S COMPETITIVENESS."**

**PANKAJ JAIN, DIRECTOR, ESS DISTRIBUTIONS LTD.**

a SME can take on the established players and win despite the size issue.

Ashok Dash of WeP views that there is no right or wrong time for any organisation for investment in technology. The user organisations must get economy in terms of value (saving in time, Speed, complexity and money). The service provider must invest in technology to provide the aforesaid four always.

As per Sunil of GIGABYTE, SMEs should be proactive in keeping themselves updated on new technology, both in knowledge and practice, to ensure better profitability.

### How channel should be immune?

At the time of increasing competition, to grab market share from their competitors and stay on the wave channel partners must keep adding new products and service in portfolio. Diversification is never a risk but it only gives new opportunities. Partners should always keep up-to-date with technology and "What's up in market". As per Pankaj Jain, Director, ESS Distributions Ltd, good human resources is one of the most important components of the company's competitiveness. For that not only good compensation but technical or sales enhancement should always be taken care of. Out of the way support to every client will make sure that clients stick to partner, sometimes that would pinch the pocket, but in a long run it is always beneficial. There are many fields and technologies where time or money can be invested. He adds, "But I would strongly recommend the Channel community to have IT Security as their offerings. Suffice it to mention that the number of news about security breaches in corporate sector growing rapidly. It is reckless to think that only tycoons like Google, Sony or Citigroup are going to remain the only victims of security breaches. Small and medium companies are often even more unprotected from cyber threats as they don't consider security as investment worth issue."

Ashok Dash says, "In order to keep them immune, the partners should define their value system as to how the organization wishes to conduct in the market place. They should learn new things always in terms of Technology and Commercial models. Finally, they should always invest a certain percentage of the profit towards learning every year."

### Finally...

The external factors are the passing by effects. It should not bother any business organization be it small or large. But in order to be unfazed at all times the partners should bring in innovation and adopt high-end products. **SME**