# BUSINESS IN TIMES OF ECONOMIC RECESSION: IMPACT AND OPPORTUNITIES IN THE INDIAN TELECOM AND IT SECTOR

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#### Abstract

This paper studies how businesses are affected in times of economic recession. The paper discusses globalization and the way it brings liberalization of economies and the interconnectivity of national economies. The paper also explains how risks and effects can travel more quickly during recession. It characterizes economic recession as a decrease in the rhythm of economic growth in a country and gives suggestions for combating the contraction of growth and decrease in consumer spending. The global meltdown has engulfed complete world economy with a varying degree of recessional impact. Telecom companies, driven by competition and by the growing crises, are constantly seeking ways to improve their operations while reducing costs. In the past, telecoms believed that anything that had to do with their network was a part of their core business and had to be handled internally, but this position has been increasingly challenged in the recent years. This paper emphasizes on the impact and opportunities in the Indian telecom sector, which has so far remained untouched by the slump in the global economy; but could, see the growth rates slowing down by the end of the year.

On the other hand, India's success in the IT industry is mainly driven by three factors: human capital, a thriving industry, and the creation and utilization of synergies between knowledge based sectors. Mixed results are expected to be seen in software and services market. This paper examines an overview of analyst observations on current recession trends in IT and Telecom sectors, predictions about the future prospects and their recommendations to mitigate the impact.

**Keywords:** Recession, knowledge process outsourcing ,Legal Process Outsourcing, IT, Telecom.

#### INTRODUCTION

Recession is defined as "a slump in economy of a country for a minimum of two quarters of a year" The U.S. based National Bureau of Economic Research (NBER)

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defines a recession more broadly as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP growth, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales.". A sustained recession may become a depression. Different economists and researchers predicted different dates for start of the most unwanted economic slowdown, but NBER declared year 2008 as the beginning of recession on account of massive slump in US economy, loss of thousands of jobs, unexpected fall in housing prices and a dramatic fall in American consumer spending. About 1.2 million jobs were eliminated in the United States between January and October of 2008. Since then - the industrialized world has been undergoing a recession, a pronounced deceleration of economic activity.

#### IMPACT ON US: THE WORST HIT

The US has been the most adversely affected victim of 2008 recession. The 2008 recession has not yet turned into a depression. But the signs are looming large. Every business is slowing down. Expatriates are leaving for native countries. In 2007, many businesses felt the heat and closed shop. Even the strongest feel the cracks in the face of an earthquake. The cracks are visible even during a brief recession. When the markets are disrupted the effect shows. Unemployment is the greatest dread of any man. America which has been home to many people is now turning them out. Branches of American companies abroad are shutting shop. When there are cuts in the weekly budgets, priorities changes, when job seekers are dumped there is a big change in lifestyle. A broad survey of Americans has provided striking measures of the recession's effect on life at home and at work: People are now stuck in traffic longer, less apt to move away and more inclined to put off marriage and buying a house. The U.S. census data, revealed a dip in the number of foreign-born last year, to fewer than 38 million after it reached an all-time high in 2007. This was due to declines in low-skilled workers from Mexico searching for jobs in Arizona, Florida and California.

Demographers said the latest figures were significant in highlighting how profoundly the recession affected Americans as it hit home in 2008. Findings come from the annual American Community Survey, a sweeping look at life built on information from 3 million households. Preliminary data earlier this year found that many Americans were not moving, staying put in big cities rather than migrating to the Sunbelt because of frozen lines of credit. Mobility is at a 60-year low, upending population trends ahead of the 2010 census that will be used to apportion House seats.

"The recession has affected everybody in one way or another as families use lots of different strategies to cope with a new economic reality," said Mark Mather, associate Vice President of the nonprofit Population Reference Bureau. "Job loss — or the potential for job loss — also leads to feelings of economic insecurity and can create social tension." "It's just the tip of the iceberg," he said, noting that unemployment is still rising.

The percentage of people who drove alone to work dropped last year to 75.5 percent, the lowest in a decade, as commuters grew weary of paying close to \$4 a gallon for gasoline and opted to carpool or take public transportation. Nationwide more than 1 in 8 workers, or 17.5 million, were out the door by 6 a.m. Marital bliss also suffered. Nearly 1 in 3 Americans 15 and over, or 31.2 percent, reported they had never been married, the highest level in a decade. The share had previously hovered for years around 27 percent, before beginning to climb during the housing downturn in 2006. The never-married included three-quarters of men in their 20s and two-thirds of women in that age range. Sociologists say younger people are taking longer to reach economic independence and consider marriage because they are struggling to find work or focusing on an advanced education.

As USA is facing a visible recession in current times, it is evident that economists are in overdrive to review the fiscal statistics and give expert opinions. The stock markets have already created a panic situation in the country. The biggest lenders are now facing a cash crunch and for the first time they are also admitting it. Most of the credit has gone into housing, car, security and insurance schemes. Americans who have invested in such schemes have only their stocks to offer as collaterals and now are facing the brunt with embarrassing foreclosures. There has been no sustainable development in major sectors like housing, medical and small scale businesses. The US economy had reached its peak and is slowly going downhill. Jobs are being outsourced to other countries while Americans are themselves jobless. As Asian countries are getting more employment, even expatriates are returning home. India and China are major outsourcing backyards for the US. Cheap goods manufactured in China, Thailand and other poor countries have hitherto relied on the dollar power for sustenance. As the value of the dollar falls, the American dream is going bust for many. Whether it is the shoe maker or the food chain or cola giants or even real estate developers, the earning potential has been cut.

#### IMPACT OF RECESSION ON INDIAN ECONOMY

As the saying goes, "When US sneezes, the world catches cold", the recession that originated in US, did not take much time to engulf the whole world including India. The global economic recession has taken its toll on the Indian economy that has led to multi-crore loss in business and export orders, tens of thousands of job losses, especially in key sectors like the IT, automobiles, industry and export-oriented firms. It has also shaken up the investment regime, which is being restructured, with the telecom sector likely to be declared off-limits for foreign investors. Although the next two years or more are expected to usher in a difficult phase for the national economy, there are silver linings still amid the dark clouds looming on the horizon. Restrictions on exports of food, textiles and construction material to the Gulf have jacked up the prices there. Easing on export curbs should be welcome news to some 30 million people in that region.

On the higher end, people are cutting back on contracts. They are reducing the fees per manpower in their contracts." A survey of 125 companies by the commerce

department in New Delhi has revealed that Indian companies lost export orders worth Rs.1, 792 crores during August-October 2008 and were forced to lay off 65,000 workers. The manufacturing sector, especially the auto industry, has also sustained a severe hit. As a result, the global credit rating agency, Standard &Poor's (S&P) has downgraded Tata Motors rating for the foreign market. The company witnessed a 30 % drop in sales in India compared to last year. The manufacturing sector has been calling for an action in this regard to cushion the recessionary impact. In the meantime, it has impacted the entire spectrum of the automobile industry. Dunlop India Ltd, for instance, asked all 1,171 permanent employees at its Sahagunj unit and 917 staffers at Ambattur (in West Bengal) "not to report for work" for an indefinite period. What's strange about this management move is that it is an 'informal directive' with neither suspension of work (mandating a notice period) nor a lay-off that obliges the management to pay the basic salary and a portion of the dearness allowance. The Dunlop management, meanwhile, will pay each employee a monthly allowance to support their families.

For NRIs, this is the prime time to invest in the real estate market, which is bound to rally once it gets over the hump. On the educational front, bank officials point out that there is no impact yet on the grant of loans for higher education. Students of IIM, IIT, medicine, engineering and other professional courses continue to receive educational loans. Foreign students, too, will stay put, since security measures are being beefed around hotels, prestigious institutes and other places frequented by foreigners. Countries from Southeast Asia and the West have also advised their nationals to consider deferring their visit to India till the situation improves.

The tourism sector has also been a victim of recession. Hotels have already reported 20-25% cancellation from international tourists who were booked to visit over the next one year. Airlines, including low cost carriers (LCCs), may lower their fares by 10-12% to extend the benefit of lower fuel prices to the customers and rein in the sagging demand. With hotel occupancy levels and room rates dipping by 20% and 50% respectively in just two weeks, the sector is planning for a substantial cut in luxury tax slabs. According to market sources, guests are paying 20-25% higher room rates because of this tax structure.

The reduced purchasing power of Indian consumers in the current situation has revived up the competition among shopping malls. They now have to step up their ad spend along with discounts to lure consumers who have restricted their shopping list to essentials, such as food and other consumables. After all, the purchasing power of 350 million Indians cannot be glossed over.

Together with the package of incentives offered by the government to kickstart the economy, good management practices and self-imposed check on profiteering, the retail sector can hold its own. However, for the time being, the growth of this sector will be stunted as overseas investors will be on guard for two reasons. Firstly the financial meltdown has burnt a hole in millions of Indian pockets. Secondly with their shopping budget on a tight leash, one should not expect overseas malls to make forays into the Indian market anytime soon. The situation on the ground has since changed in the aftermath of economic recession and the current security threat.

### Measures Taken by the Government

The Indian government has already unveiled a Rs.300, 000 crore package to pump prime the economy with specific measures for various sectors. This amount is to be spent on revitalizing stake holders such as exporters, housing, infrastructure and textiles. A four-percent cut in Value Added Tax has also been announced to help the corporate sector in general. This apart, additional allocation has been made towards various incentives for exporters, guarantee of export credit, full refund of service tax to foreign agents and refund of service tax under the duty drawback scheme. Relief for exporters includes a 2% interest subvention up to March 2009 for pre- and post-shipment export credit for all exports. Additionally, a Rs.350-crore booster for schemes like Market Development Assistance (MDA) and Market Assessing Scheme has been granted to help exporters develop new markets. This will be applicable to all exporters. As a result of these measures, the Center's direct tax collection in November was Rs.10,347 crore against Rs.16,189 crore in the same month last year, a fall of 36 %.

Other measures in the offing include easy access to the credit market for exporters, textile manufacturers and farmers collectively to the tune of Rs.9, 000 crore. Of the total outlay, a Rs.4, 000 crore line of credit will be extended to the National Housing Bank (NHB) and a similar allocation for the Exim Bank. The remainder of the rescue package will be utilized for the relief of farmers and infrastructural projects. But challenges still remain. One of these is the massive scale of corruption that has diverted crores of tax payer's money into the pockets of corrupt politicians and officials. This has strained the economy, tarnished India's image abroad, and sapped the investor's confidence. Another problem is the sluggish bureaucracy that taxes an investor's patience to the hilt. There is no active single window clearance mechanism in place where business decisions could be expedited. Therefore many potential investors have been moving away to greener pastures in the country or outside. Bangalore, which once served as a magnet for investors due to its operational efficiency, among other factors, has nose-dived on several counts, including poor infrastructure, traffic bottlenecks, culture of corruption and casteism. It is losing out to Andhra Pradesh and Tamil Nadu as the country's IT hub.

#### Adversity for One, Opportunity for other

The challenges to overcome recession represent one side of the coin, there are opportunities galore on the other. The stimulus package that the Centre is offering to the state governments offers an exciting opportunity to the private sector to resume exports to the Gulf States as Indian exporters are being offered credit facilities. For exporters from Hyderabad, now is the time to strike a deal in view of the incentives being offered? In this context, it is worthwhile considering the Saudi

market which, unlike a major segment of the international market, still remains vibrant as it gears up for the expansion mode. Right now, the growth areas are real estate, renewable sources of energy, especially solar, and seasonal market like pilgrimage, when nearly 2.5 million pilgrims become consumers of electronic, household and food items that are available at cheap prices. The immense market potential of the Haj season should not be underestimated, since the impact of recession will be felt at least over the next two years or more. The export-oriented facility is coming up in a SEZ-designated area and will enjoy fiscal benefits. Around 10 acres of land will be utilized initially with the remaining area allocated for future expansion. This is an exciting time of challenges and opportunities. Only those with a strong will, sound technological base and innovative solutions can ride out the crisis.

#### **Managing Survival during Recession**

As an individual how will recession affect you and how will you survive it. There will be a global impact on the recession in US and survival will be challenge. These are the brief points you should be thinking about and making sustainable decisions.

- 1. Are you an employee in a big or large company that has decided to lay off staff?
- 2. Are you running a small business? Scared you may have to wind up after all these years of sweat and toil?
- 3. If you are an independent professional back up the resources keeping in mind the family you have to support. Sounds bad, but can you look for a job in the Middle East, India or New Zealand. That's where most professionals are making good money. Your consultancy may not be required for quite sometime and even if it is, the fees will be a pittance.
- 4. Evaluate your current position in the industry. This will give you an idea if you want to shut shop, go aggressive or stay calm. This is the time to pay off all the debts. You don't want creditors sealing your property or hard earned valuables.
- 5. Be proactive and get a plan to stay afloat. How have you managed all these years? You have to really think hard to get out of the credit crunch.
- 6. Are you involved at the stock exchange? You probably need really good shock absorbers. You will have to reshuffle your portfolio and get some liquid cash stashed for the future.

The following sections of this paper will briefly discuss the sectors that have barely managed to keep their feet fixed on the ground in the tough times of recession.

#### The Fittest Survivors of 2008 Recession

As every business sector is affected by present global crises and everybody is talking of slow down in business, still in India there are few sectors which will grow in this adverse situation.

**FMCG:** No one can survive without basic food material like milk, vegetables and drinking water. Food processing companies will not be affected much and rather will earn profits by increasing the prices. These are the basic needs which we as a common man can not produce by our self. According to ministry of food processing Industry (MFPI), the food processing industry in India was enjoying growth even when the world was facing economic recession. According to the minister, the industry is presently growing at 14 per cent against six to seven per cent growth in 2003-04. The Indian food market is estimated at a turnover of over US\$ 182 billion and accounts for about two third of the total Indian retail market. Further, the retail food sector in India is likely to grow from around US\$ 70 billion in 2008 to US\$ 150 billion by 2025.

Railway: As the aviation sector has been affected badly and resulted in sharp rise in the air ticket rates, the frequent travelers will prefer railways to cut the cost of traveling resulting in increased traffic in railways and long queues at railway booking counters. The freight traffic of Indian railways has continued to grow in the last few months, albeit at slow pace, indicating only marginal impact of the global recession on Indian economy. The railways registered 13.87 per cent growth in revenue to Rs. 57,863.90 crore in the first nine months ended December 31, 2008. While total earnings from freight increased by 14.53 per cent at Rs 39,085.22 crore during the period, passenger revenue earnings were up by 11.81 per cent at Rs 16,242.44 crore. The railways have enhanced the freight revenue by increasing its axle loading, improving customer services and adopting an innovative pricing strategy.

**PSU Banks:** As seen in the private sector much of the job cuts are due to global slowdown, it's the public sector undertaking (PSU) banks which gained much confidence due to job safety and security. More and more people are likely to turn towards government institutions, particularly banks in the quest for safety and security. A report "Opportunities in Indian Banking Sector", by market research company, RNCOS, forecasts that the Indian banking sector will grow at a healthy compound annual growth rate (CAGR) of around 23.3 per cent till 2011.

**Education:** As education is considered as the basic necessity and in India it is seen as a long term investment by parents; with respect to the demand, there is a huge supply gap. The craze to study in foreign university among the Indian youth is still alive which will prompt foreign educational institutes to target India provided vast young population is willing to join. We will see more and more foreign educational institutions coming up in India in recent coming years. Huge government as well as private investment is likely to grow into the Indian educational system. D.E Shaw, a US\$ 36 billion, global private equity firm is planning to invest around US\$ 200 million in the Indian education sector.

**Health care:** India in case of health care facilities still lacks the adequate supply. In health care sector there is huge gap between demand and supply at all the levels of society. Still there are so many urban areas where you could hardly find any multi-specialty hospital. And in case of metros the market sentiments

itself created a need of psychological consultation. Healthcare, which is a US\$ 35 billion industry in India, is expected to reach over US\$ 75 billion by 2012 and US\$ 150 billion by 2017. The healthcare industry is interestingly poised as it strives to emerge as a global hub due to the distinct advantages it enjoys in clinical excellence and low costs.

**Luxury products:** The high and affluent class of society will not be much affected by the global crises even if their worth is reduced significantly. They will not change their lifestyle and will not stop spending on luxurious goods. So luxurious product market will not be affected and in fact to maintain the lifestyle those affluent will spend more for it. Luxury car makers are pouring in to woo the nouveau riche (Audi, BMW are the most recent entrants).

**M&A & Marketing Consultants:** As in the current business slow down survival will be the main focus, the marketing and management consultants will be called for to reduce the cost and to show the ways to survive and stay in market. Others may join hands to fight with this situation together will call for the Marketing & M&A consultants. In a booming market there are growth strategies and M&A opportunities to advise on. When businesses are cutting back, consultancies will be right there to help clients decide where to wield the axe. According to Ministry of Commerce and Industry's estimation, the current size of consulting industry in India is about Rs 10000 crores including exports and is expected to grow further at a CAGR of approximately 25 per cent in next few years.

Media and Entertainment: In current bad times, where people are losing jobs and getting enough time to watch TV, they will seek entertainment at home and hence advertising revenues will increase for the commercial channels. Also businesses like production of religious texts and religious materials, religious channels will do well. The TRP of religious channels will increase as compared to the other entertaining / commercial channels. According to a report published by the Federation of Indian Chambers of Commerce and Industry (FICCI), the Indian M&E industry is expected to grow at a compound annual growth rate (CAGR) of 18 per cent to reach US\$ 23.81 billion by 2012. According to PWC report, the television industry was worth US\$ 5.48 billion in 2007, recording a growth of 18 per cent over 2006. It is further likely to grow by 22 per cent over the next five years and be worth US\$ 12.34 billion by 2012.

# TELECOMMUNICATION SECTOR: RECESSIONAL IMPACT AND OPPORTUNITIES

Telecommunication Sector in India has proved to be the fittest survivor in this nerve breaking period of recession. People will not stop communicating with each other due to global crises; rather it has been seen that it will increase much particularly with mobile communication. With cheap cell phones available in Indian market and cheaper call rates, the sector has become the necessity and primary need of everyday life. Telecom sector, according to industry estimates, year 2008

started with a subscriber base of 228 million and will likely to end with a subscriber base of 332 million - a full century. The telecom industry expects to add at least another 90 million subscribers in 2009 despite of recession. The Indian telecom industry is one of the fastest growing in the world and India is projected to become the second largest telecom market globally by 2010. However, unlike other countries, where the telecom industry has reached its peak, the Indian telecom sector is in the growth phase. It moved from quantitative growth to growth of quality of service. A lot of things still need to be done to steady the sector's growth. Altogether, around 30 recommendations were made to the government to boost this industry. Over the past three years, tariffs rates for mobile voice, SMS, roaming and fixed lines have come down drastically. As on December 2008, outgoing call rates from GSM mobile was at Rs 0.78 compared to Rs 1.77 in March 2006. For CDMA, outgoing call rates stood at Rs 0.61 as on December 2008 compared to Rs 1.09 in March 2006. Similarly, call rates for STD from fixed services also came down to Rs 0.60 from Rs 2.40 in 2006. Local SMS rates have also been lowered from 0.50 paisa to 0.25 paisa. Today India is among the competitive markets in terms of low tariff rates.

It should be kept in mind that the Indian telecom sector, which has so far remained untouched by the slump in the global economy, could see the growth rates slowing down by the end of the year. The reasons for the same can be attributed to households postponing their spending; the growth rate of mobile handsets could fall by as much as 50 per cent and also see a decline in new subscriber additions compared with 10 million new subscribers a month at present. In the current economic environment, many corporate are re-negotiating the rates they pay to telecom operators. Though subscriber numbers are still growing at well over 10 million a month, revenues are not rising commensurately. Also, it will be a challenging market for mid- to high-end handset makers this year. In high-end phones, sales will be defined more by need rather than desire of the user. While most operators claim that the telecom growth story is intact for another 3-4 years, they privately admit that the liquidity crunch may have an impact in 2010. "Most of the growth in mobile usage is coming from non-urban areas driven by a large population of employed youngsters. However, if the liquidity crunch continues then these youngsters may not find employment easily, which in turn will impact their expenditure on communications services," says a Mumbai-based multinational GSM operator.

However, at the same time some of the players completely rule out any impact on telecom. "Look at it from the customers' perspective — slowdown or not, they need a communication device under all circumstances; to share their thoughts, worries, good news or even for a general discussion. So, the demand for telecom services remains strong, and that is evident in the strong growth that the sector continues to enjoy. In fact, telecom usage in innovative ways is actually increasing through the long-drawn recession, as it becomes a cost-effective alternative to business expenses such as travel and lodging, etc. Market watchers point out that the onus will be on the new government to launch next generation reforms in the telecom sector to sustain the growth story. The impact of the current global economic

recession would be comparatively lesser on Indian telecom sector due to its inherent strength and faster anticipated growth. Indian telecom sector has a unique distinction of being the fastest growing telecom sector in the world with addition of over eight million subscribers per month and the second largest wireless network in the world after China with over 315 mobile connections.

## **Precautionary Strategy for Survival**

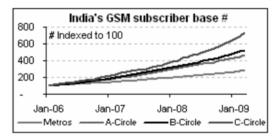
The telecommunications sector will likely be hit by the recession in two main ways. First, due to the lack of credit in the global economy, investments will fall in the beginning of 2009. Investments related to costly projects such as acquisitions, will feel this drop intensely. Second, consumption will fall as people move away from wants and focus on their needs. This will reduce the uptake of innovative services. Though the industry is not losing sleep yet, the authorities are undertaking costcutting measures such as infrastructure sharing and internal restructuring. "Reflecting its proactive approach, Ericsson has had a cost reduction programme in place since 2008 which well exceeded set targets. The present economic condition is helping them drive better focus across various teams and functions internally. Conscious decisions are being taken to curb costs by increasing the use of Web effectively - through webinars and Web conferences, thus seamlessly connecting across geographies and different time zones.

Optimization of organizational resources and processes as well as promoting business innovation will be key success factors in this environment. "This means being able to design lower cost and disruptive business models as an effective way to attract consumers. Disruptive business models here refer to combining existing technologies with new business models to create low-cost products and services (i.e. the combination of mobile content with forms of marketing and advertising)." This will require partnering with players of different expertise. This type of collaboration can reduce costs, advance the quality of service, and offer more attractive packages to the customer. Encouragingly for the industry, many national governments and super-national organizations have come to view the telecommunications sector as a critical means to overcome the crisis.

As far as employment is concerned during recession, while others worry about the looming recession and job losses, the country's telecom companies beg to differ. The sector will need up to 1, 50,000 additional hands in 2009. While new players are launching operations, existing ones are beginning to scale up. Now that the government has issued 120 new licenses, telecom industry officials fear a talent crunch that could push salaries in core operations by up to 30 per cent in the next few quarters. "Conservative estimates put the demand from new players at one lakh people in the first phase. Most of the new players would be looking for experienced hands, so getting people in such large numbers will be a great challenge. Currently, the sector directly employs about 1, 50,000 people, while providing jobs to another 1.5 million with retail outlets, prepaid card sellers and tower constructors. And now with most telecom players expanding in the rural markets, the demand

for manpower is expected to go up further. "The new players will have to attract talent by offering 15-20 per cent higher salaries. Some of the new players — such as Unitech, Swan, Loop Telecom and Shyam Telelink — have started hiring, and analysts feel this could drive poaching at top and middle management levels. "Finding and retaining talent is a challenge today. Although we have an experienced workforce, at times they are short in supply. The problem for the new players would be to get people in the core telecom space, which is primarily concerned with the technology of providing telecom services. While talent in sales and marketing can be found in abundance, sourcing professionals for setting up the infrastructure and networks would be difficult.

On a concluding note, it is viable to acknowledge that telecom is one sector that has so far bucked the trend in India while other industries face slowdown issues. Not only this, companies within the sector have been able to grow strongly over the past few months, at least when it comes to ramping up their subscriber bases. The month of March 2009, for instance, saw the sector add record 15.6 m subscribers, the highest in any month in the sector's history so far.





While reduction in tariffs and cost of handsets has supplemented the growth of the Indian mobile telecommunication sector, growth in the recent past has been largely driven by mobile service providers' aggressive entry into the large and relatively untapped rural markets. In these markets for instance, carrying Rs 2,000 mobile phone can be something of a status symbol. This is clearly indicative of the much-larger drama unfolding in the Indian telecom market, once considered a backwater and now the fastest growing in the world. While the country still has a long way to go in establishing a nationwide network of landline telecom networks, let alone high-speed broadband service, this sector has already overtaken China in terms of mobile-phone subscription growth and US in terms of wireless base. The robust growth in the Chinese mobile phone industry in the past was due to an expanding rural market and the increasing number of people who have more than one mobile phone. These will be the very factors that will aid a superior growth of the Indian telecom market in the future.

#### IT SECTOR: RECESSIONAL IMPACT AND OPPORTUNITIES

Over the past few years, the Information Technology sector in India has displayed tremendous growth and is expected to outshine other countries in terms of software

services and solutions. According to news published recently the Indian IT sector will grow 30 to 40 per cent next year. And on the other side to survive in current slowdown, industries have to decrease the cost and for that they will resort to customized IT solutions which will further boost up the software solution demand. India is fast becoming a hot destination for outsourced e-publishing work. As per confederation of Indian industry (CII) report, the industry is growing at an annual rate of 35 per cent and India's outsourcing opportunities in the value-added and core services such as copy editing, project management, indexing, media services and content development will help make the publishing BPO industry worth US\$1.46 billion by 2010.

However, the tremors of 2008 Recession are evident in IT sector also. Before the economic crisis erupted, there were more than 1500 software firms in the country, while the employee base of the sector had grown to 553,000 (from 415,000 in FY 06). More than 1300 IT companies were operating in Bangalore alone. In February this year, Tata Consultancy Services (TCS) had asked about 500 employees to leave due to non-performance. Patni Computer Systems (PCS) has already laid off around 400 employees, or nearly 3% of its 14,800 workforce, on the same ground, while IBM Corp. followed suit in the case of 700 fresher. Besides this, the \$11 billion BPO sector - which gets most of its business from the United States - will bear the brunt. The industry has projected job cuts on a massive scale. The job cuts follow a decline in growth. IT major Infosys predicts a drop of 15 per cent in growth from 30 per cent last year. On one hand, where the US accounts for the largest share — at over 50 percent — of the Indian software and outsourcing market due to which the impact of recession on US has automatically been inflicted on Indian IT sector. "This sector has been adversely affected by the global crisis" - a fact acknowledged by Bangalore-based Infosys Technologies Co-Chairman, Nandan M. Nilekani. However, he believes that even though the tech sector would see the impact of the economic slowdown in terms of growth rate, the IT industry will continue to grow and recruit manpower.

The Business Process Outsourcing firms believe they will be less impacted by the global crisis than their IT counterparts, since they are involved in facilitating day-to-day operations. Currently, processing services account for 60% of the industry, while the rest comes from core services (business analysis, financial planning etc). Last year the ratio was 70:30 and it's likely to be in the 50:50 ranges next year. Also, the share of voice-based services has fallen from 95 % two years ago to 80% now and is expected to slide further. India will not be much affected, since it accounts for only 5% of the global voice market. The major impact of recession or economic slowdown is with the small exporters and importers in the country as most of them are facing the problem of heavy duties. "The US slowdown will immensely hit the mid-sized IT companies and also the big players to some extent. The techno-savvy group will benefit as the IT hardware industry has decided to pass on the 4% across-the-board excise duty cut to consumers which will help bring down the prices of IT products like TFT monitors, printers and projectors as well as computers and

notebooks. With this, desktops and notebooks will attract 8% excise duty, while all other hardware equipment would attract 10%.

The economic slowdown will mostly affect medium-sized IT-ITES companies. Indian IT-ITES companies have also undertaken labor-cost rationalization by getting rid of poor-performing workforces and tightening recruitment policies. Companies have also reduced the average age of their workforce in order to reduce cost and improve overall profitability. Companies may not be adding the kind of people that they were last year, but they are definitely getting better yield from existing employees. In addition, the slowdown has accelerated the desire of Indiaborn professionals based in the US to return to their home soil. While such IT professionals previously returned in hopes of being part of the Indian growth story, today the sub-prime crisis, slowing economy and fear of layoffs in the US are prompting these workers to look for opportunities in India. As a result, India's talent pool is getting richer and it could be only a matter of time before the Indian IT-ITES industry overcomes the problems posed by a US slowdown. In context of the IT industry, Nasscom had initially projected a 21-24 per cent growth rate for the current financial year, but the software association revised it downward in the wake of the global financial meltdown. According to a Nasscom spokesman, "IT industry has demonstrated time and again that it is resilient enough to deal with these challenges,"

#### Survival During Recession: Tips and Tricks

In order to withstand the effects of recession and to meet the opportunities for the future, the Indian IT industry must move up the value chain, get into production, increase efforts in the field of hardware and strengthen its advantage in embedded software. We also need to diversify our overseas markets and, for this, we need to train IT professionals who can converse in different languages. As far as IT Enabled Services sector is concerned, in order to survive during recession, the sector should review its priority and focus on product innovation (as opposed to merely providing services). If this is done, India can emerge as a major player in the IT products category as well. As a result of putting all their eggs in one basket, developers, consultants, trainers, team leaders have all become victims of the recession facing the IT/ITES sector. A fresh entrant – the blogger-is in for trouble as well. With corporate budgets getting trimmed, professional bloggers may be the next to come under the hatchet. Even during a recession, companies can not only survive, but thrive. To do this, the IT function must stick close to the business, be involved in the broader strategy and plans, and measurably demonstrate the success of IT investments in terms and language that the wider organization understands and appreciates. Even before doing this, the IT function has to control its budgets and resources, and recognize that where expertise is available from 3<sup>rd</sup> parties, it should be exploited as part of mutually beneficial partnerships. This should not only ensure that costs are manageable, but that suitable returns in terms of overall business performance and individual employee productivity are realized.

# **Silver Lining Amidst Dark Clouds**

The current slowdown in the United States which has caused a Global recession phenomena lately has prompted the other countries to relook their policies and their customer base. The so-called off-shoring companies in India, which just had either American customers or which just do plain BPO services are the ones bearing the brunt. There have been loads of cost-cutting initiatives in all the companies, with some even performing the brutal act of laying people off.

**KPO** or Knowledge Process Outsourcing has been a new buzz-word now-a-days, with plain old "Call Center" giving way to some of the important processes being outsourced. The work outsourced is not as simple as just replacing the B with a "K", Knowledge process can be defined as high added value processes chain where the achievement of objectives is highly dependent on the skills, domain knowledge and experience of the people carrying out the activity. The future of KPO has a high potential as it is diversified across various sectors like Legal Processes, Intellectual Property and Patent related services, Engineering Services, Web Development application, CAD/CAM Applications, Business Research and Analytics, Legal Research, Clinical Research, Publishing, Market Research (Market research KPO) etc. The current global recession will usher these more important and also more specialized activities to be outsourced as the organizations in the developed countries try to cut their costs further.

**LPO - The current Outsourcing Boom???** Though initially treated with mistrust, the Law Firms in United States have finally started delegating the drafting and the other paper work to their subsidiaries in India. The Wall-Street crisis brought a wind-fall in this nascent industry because the crisis that impacted the fortunes of Indian IT firms has the country's LPOs minting bundles of cash with huge amount of litigation work coming their way from the US. With a lot of paperwork needed for filing bankruptcies, lawsuits, mergers and acquisitions that the global recession is bringing forth, the Indian LPOs are getting more and more involved into the so-called critical tasks of the companies. Also, with the E-discovery law in place, (this law is related to storage, usage and analysis of electronic data for the litigation work) the American Law firms are flocking to India because of the huge cost differential in lawyer fees. Of course, the law firms are still debating as to how much of the work/ data can be effectively outsourced to India, especially considering that the information of the clients or the case may be confidential, but some of the simpler tasks like drafting and document reviews are being sent to India in a larger amount. A few of the law firms also commented that ever since the fall of Lehmann Brothers, their work has almost doubled and there has been a lot of hiring in different cities as the bubble burst is still happening and hence the demand is on the high.

#### Mass Layoffs - A Blessing in Disguise???

For years, we Indians have been hard-wired to live a methodical life of studying and finding a well paying job in a reputed MNC and settle down in life. The mass

layoffs that follow this recession will shake the whole system up and we will have to wake up from this "dream-world". Considering that a huge mass of good educated people, i.e. Engineers, Managers, Doctors etc. suddenly become unemployed, people will start to look at the other opportunities that would have been overlooked. New innovations may occur which will change the way we perceive the world and probably, some Indians will spawn yet-another MNC, an Indian MNC. These issues may also make people more interested in teaching, which for now is considered a "dull" occupation and hence the next generation of students will be guided better. A bunch of people may even enter into Politics and we may see a lot of changes in various other segments and scenarios. The dark side is the crime rates will also go on a high and how we cope with the question of how to feed the hungry people is going to be tough to answer.

#### CONCLUSION

Conclusively it can be said that the recession has impacted almost everyone in our surrounding community, whether they were impacted directly or indirectly. It has impacted local small businesses, large industries and companies, as well as individuals and families. All people in the economy are impacted by a recession. However, from the current information, it looks as if the economy is on the rise and will soon be back to normal. Recession is a serious issue, but hopefully our current let down in economy has been a learning experience and next time we will be better prepared and can prevent an equal disaster. It was concluded that even the tech sector would see the impact of the economic slowdown in terms of growth rate; the IT industry will continue to grow and recruit manpower. The Impact of the current global economic recession would be comparatively less on Indian telecom sector due to the inherent strength and faster anticipated growth in this sector.

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