

# Service Industry in India - A Perspective

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**Abstract:** *India's huge size and socio-economic & cultural diversity means there is no established model or consumption pattern throughout the country. Any service provider therefore needs to devise strategies for different sectors and segments, which by itself is challenging. The examples are Ola, PAYTM, MakeMytrip, Flipcart etc. The growth of service sector can be achieved hand to hand with the proportionate growth of other sector viz., in the industry and agriculture. To sustain the current growth the government endeavor in developing infrastructure like transport, accommodation, better roads, health and hygiene etc. is need of the day.*

**Keywords:** Service, Banking, Insurance, Economics, Information Technology, Tourism

## 1. Introduction

Services, the largest and fastest grown sector of the economy is the lifeline for the socio-economic growth of a country and covers a wide range of activities like trading, banking & finance, insurance, railways & other transportation, communication, real estate, security, management & technical consultancy etc. This sector accounts for more than half the GDP marks (66.1%) during FY2015-16, provides 34% of total employment and plays a significant role in Indian economy.

## 2. Post Independence Era

After independence, the country had a huge challenge of coming out from the exploitation of British rule. The economy was backward in nature and therefore the leaders had to use economic up-liftment as a tool for nation building. Industry was driven by obsolete technology and unscientific management. Agriculture was still feudal in nature and characterized by low productivity. Transport and communication systems were not properly developed, educational and health facilities insufficient and the complete absence of social security measures. Poverty was visible and unemployment widespread, resulting in a low standard of living. To guide the Indian economy towards a path of growth and development, the economic planners decided to adopt a course of mixed economy.

However, in the beginning of 1990's, the Indian Economy was under great crisis and faced its stiffest challenge. India was in a serious balance of payment problem and foreign exchange reserves were at bottom line. At this juncture, the government decided to alter the course of the Indian economy.

## 3. LPG model

The economic reforms in 1991 resulted in extensive changes in the Indian service sector. The reforms process consisted of three areas- liberalization, privatization and globalization (LPG model). Under liberalization markets were deregulated, under privatization private participation was encouraged and many a public sector undertaking (PSU) were privatized and under globalization restrictions on foreign investments were removed.

The Industrial sector has witnessed massive restructuring by the way of mergers and acquisitions, process reengineering, foreign joint ventures, technological up gradation. The service sector has been one of the major beneficiaries of the economic boom. The purchasing power of the booming middle class was enhanced, who went on a consumption spree, which in turn allowed the service sector to flourish.

The growth in service sector has been found to be very fast in last 20 years. Due to liberalization, globalization & privatization, India had witnessed a boom in service sector in the nineties when lot of innovations took place in communication, banking, hotels and restaurants, tourism, community services and trade & commerce. The Indian economy has graduated from agri-based economy to knowledge-based economy and today the IT and ITE'S industry are the dominant in the service sector. Media and entertainment have also seen tremendous growth in the past few years.

In fact, reasons behind the growth of the service sector are the increase in urbanization, privatization and more demand for intermediate and final consumer services.

## 4. Present Scenario

In advanced economies, the growth in the primary and secondary sectors cannot happen in silos as they are directly dependent on the growth of tertiary sectors like banking, insurance, trade, commerce, entertainment etc.

Growth in service sector should be in tandem with industrial growth for emerging economy like India. Availability of quality services is vital for the well being of the economy. Sub-sector wise assessment of service sector follows as under:

**i) Information Technology:** It can be said without any hesitation that in science & technology revolution, the **Information Technology** has made the greatest impact on service sector. The IT industry has achieved phenomenal growth after liberalization. The industry has performed exceedingly well amidst tough global competition. Being knowledge based industry; India has been able to leverage the global markets, by taking advantage of huge pool of engineering talent available coupled with the proficiency in English language among the middle class.

The **Information Technology Enabled Services (ITES)** viz, customer interaction services (Call centers), Back office, Data Entry, Revenue accounting, Medical transcription, Animation & content development, Remote education, Market research, Geographical information system etc. have emerged as the high-flying industries.

**ii) Retail Sectors:** In the supply chain that also consists of manufacturing and distribution, retailing is the last link before the product reaches the consumer. India, which had most underdeveloped *retail sectors* before liberalization, has come up dramatically by organized retailing with prominence of self-service and retail chain stores. This has changed the entire face of retailing in the country. In metros & urban centers, supermarkets like Reliance, Pantaloon, West Side, Namdharies, Spurs, More, Safal, Big Bazar, Viveks, etc. have opened their all in one retail outlets, catering the needs of vibrant middle class. This has certainly contributed to the growth of the packaged food industry and other consumer goods. The growth in the organized retailing has resulted in the establishment of departmental stores, supermarkets, rural retailing, e-retailing and luxury retailing. The unorganized sector having the advantage of low investment need, is still dominant in India. Since retailing connects the supplier and consumer, pricing of products is very important in a price conscious market like India. Improvement in supply chain management will bring down the inventory cost and the benefit can be passed on to the consumer in the form of low pricing. ITC's rural mall "Chaupal Sagar" is the latest addition in rural India, with a view to provide farmers a one stop shopping center for all their daily needs.

**iii) Tourism:** This sub-sector in India has seen an exponential growth in the recent years with many facets viz, Eco tourism, Medical tourism, Heritage tourism, Agri tourism, Adventure tourism and became one of the most preferred destinations for both overseas and domestic travelers. Indian tourism industry is expected to outperform the global tourism industry in terms of growth in the volume of foreign tourists as well as in terms of revenue. The main reason for the growth in tourism in India is the tremendous progress made by the Indian economy. Though it must be said that infrastructure is still a constraint.

**iv) Health sector:** The Indian *Health sector* consists of Medical care providers like physicians, specialist clinics, nursing homes, hospitals, Diagnostic service centers & pathology laboratories, third party support service providers (catering, laundry) etc. Prior to liberalization, the private sectors venture in the health care sector consisted of only lone practitioners, small hospitals and nursing homes. Unlike state run hospitals, the quality of service provided by charitable trusts and religious foundations was excellent. People from all corners of the country were compelled to visit the hospital at Vellore, Chennai, Chandigarh etc. for getting satisfactory level of medical care/treatment. The government initiative was not enough to meet the demands from a growing population be it in primary, secondary or tertiary health care. Alternate sources of finance were critical for the sustainability of the health sector.

After realizing the demand of healthcare with the rising population in India, the government allowed the entry of private sector to reduce the gap between supply and demand. Large companies and affluent individuals have started five star hospitals. The establishment of private health sector has resulted in the emergence of opportunities in terms of medical equipment, information technology in health services, BPO, Telemedicine and medical tourism. The opening up of private sector hospitals has not only given the opportunity of employment and practice for a large number of young doctors & support service providers, but the common people have got the scope of getting good medical treatment & diagnosis. This has reduced the death rate in our country and therefore increased the life expectancy.

**v) Media and Entertainment:** The *media and entertainment* industry is one of the fastest growing industries in the world. The sector consists of creation, aggregation and distribution of content, products and services, news and information, advertising and entertainment through various channels and platforms. Since last decade, the media and entertainment industry in India has made tremendous strides in film, television, advertising, print media and music. The Indian Media and Entertainment industry is estimated to grow at an annual growth rate of 19 per cent. Advertising has also become a rapidly growing service industry which influences the consumer taste and preference and got a new dimension with internet marketing, image management, media research, graphic design etc.

After nationalization, the banks played a vital role in both rural and urban economies and in making banking services accessible to the masses. The concept of social banking cropped up.

**vi) Banking & Insurance:** Prior to liberalization, both *banking & insurance* sectors were controlled and regulated by the government. After liberalization, reforms were introduced in the banking sector to strengthen Indian banks and make them internationally competitive and for banks to play a vital role in the economic development of the country. The *Banking Industry* was opened up for private participation and the entry of new private banks and foreign banks increased competition. Steps like disinvestments of nationalized Banks, promotion of private banks & insurance companies, greater access of foreign banks in domestic market, greater flexibility in statutory liquidity and cash reserve ratio etc. have been taken to make the sector more vibrant, competitive and progressive. Banks were given greater freedom to leverage the capital markets and determine their asset portfolios in order to comply with the Basel norms.

The efficiency of the banking sector improved by gradual reduction in cost of intermediation & improvement in technology. Efficiency in the banking sector is now driven by latest technology and competition. Most important of the developments in the financial services, is the surge in the *retail banking segment* encompassing, multi channel products, & distribution system and customizing the needs of various client groups. Retail banking spans over a large

number of personal loans, auto loans, credit cards, and purchase of shares etc. Outstanding loans in the retail segment in Indian banking is showing rapid rise in the recent past.

The recent demonetization step of Indian Govt. has increased the relevancy of banking system many fold and a great metamorphosis in the Indian Banking system through cash based economy to cashless economy is underway.

The Insurance Regulatory and Development Authority Act 1999 (IRDA Act) allowed the participation of private insurance companies in the *insurance sector*. The state controlled Insurance companies like LIC and GIC faced stiff competition from private insurance companies. The private Insurance companies have now started exploiting the shortcomings in the state run Insurance companies and the monopolies of the national insurance companies came to an end. To give an edge over others and to make the sector globally competitive, the insurance sector is now allowed to invest in the capital markets and this led to develop a bunch of innovative insurance products like health care, pension plans, annuity plans, income protection, market linked products for various age groups of customers. The customers are now having the option of choosing any best-suited market linked insurance products besides existing conventional products.

**vii) Capital Market:** Today the Indian capital market is considered as a mature market and among the fastest growing markets in the world. Reforms have led to greater accountability and transparency in the financial markets, resulting in greater inflow of investments from Foreign Institutional Investors (FII) into the capital market.

The Capital market has been revamped by,

- Stock Exchanges have been corporatized.
- Giving additional teeth to Securities and Exchange Board Of India (SEBI) to monitor and control the stock markets.
- Increasing efficiency of the transaction cycle by introducing depository and share dematerialization system (DMAT).
- The forward trading mechanism has been replaced with rolling settlement for greater transparency.
- Derivative instruments like options, futures, interest rate swaps etc. have been introduced in Indian capital markets.

Hence the Indian *capital markets* are increasingly being attractive for the Foreign Institutional Investors. However, risk finance and venture capital funding needs to be popularized to promote entrepreneurship, innovation, technological advancement and further growth of knowledge based sectors.

## 5. Conclusion

India is considered to be one of the top economies in the world in terms of the purchasing power parity of the gross domestic product by the International Monetary Fund, the World Bank, and the CIA.

The *basic challenges* in any service industry are cut throat competition, challenges of customer retention, maintaining the global standard and challenges of shrinking margin. To maintain the standard, satisfy the customer's service perception and to reduce the establishment expenditure, many of the service industries are now partially outsourced.

The private sector has made tremendous progress in several areas, but on the flip side it is also responsible for increasing inequality in healthcare & education sector. They are vital for the country's economic stability. A robust & vibrant healthcare and education system can help to create a strong and diligent human capital, which in turn can contribute productively to the nation's growth. The private participation should be more socially relevant and efforts must be, to make private sector accessible to the weaker section of society.

The synergy between information technology and health service by introduction of Tele-medicine, Barcode medication administration technique etc. has given a new dimension in health care services and the rural mass living in a remote place can reap the benefits of any super specialized hospitals with nominal cost.

In any service industry, corporate governance is extremely important and determines how best the institution is functioning for the welfare of its stakeholders. Instances of disrepute are found in recent time due to dismal corporate governance in various institutions across the world and in India even. It is important that the governance structures in all types of institutions is strengthened that will be vital for developing a strong service sector.

Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play. Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management.

India's huge size and socio economic & cultural diversity means there is no established model or consumption pattern throughout the country. Any service provider therefore needs to devise strategies for different sectors and segments, which by itself is challenging. The examples are Ola, PAYTM, MakeMytrip, Flipcart etc.

The growth of service sector can be achieved hand to hand with the proportionate growth of other sector viz., in the industry and agriculture. To sustain the current growth the government endeavor in developing infrastructure like transport, accommodation, better roads, health and hygiene etc. is need of the day.