

Strategic Services Marketing
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Week – 01

Lecture - 02

Services in Modern Economy

Hello everyone. So, in this session now let us understand or comprehend the role of services in the modern economy. Services contributes to any economy across the world in different ways. For example, in terms of economic growth, in terms of generating employment, in terms of innovation in technology, in terms of rapidly growing globalization, in terms of creating consumer centric economies also to develop financial sectors in those economies or countries and ultimately improving the quality of life of citizens across those countries. Let us understand each one of these in detail. Number 1, in terms of economic growth.

In many developed and developing economies, services have become the primary driver of economic growth. When in terms of India itself, services sector contributes around 54 percent to the gross value added. The services sector's contribution to GDP or gross domestic product has surpassed that of agriculture and manufacturing. Coming to generation of employment, services sector have become major source of employment across the world.

A significant portion of the global workforce is engaged in service related activities. For example, in sectors like healthcare, education, finance, technology and much more. Coming to innovation and technology, services have been at the forefront of innovation and technology adoption. Technological advancement have laid to the growth of digital services such as e-commerce, cloud computing and software as a service that is SaaS which have revolutionized the business landscape. Coming to services contribution in terms of globalization, services are inherently global.

Many service based companies and industries have expanded their reach internationally. This globalization has led to increase cross border trade in services impacting global trade patterns. Coming to creating consumer centric economies, the rise of services has transformed economies into more consumer centric models. Customers preferences, experiences and needs often shape the direction of services industries leading to more personalized services and making them more customer centric as well. Coming to financial services, these type of services particularly in sectors like finance are instrumental in mobilizing and allocating capital.

They play a crucial role in facilitating investment, supporting entrepreneurship and under winning financial stability. And finally, services also contribute significantly to improving the quality of life of people. Healthcare, education, entertainment and public services all contribute to well being indicating that growth of these service sectors are closely linked to overall human development. Now, let us discuss what is the services sector contribution in modern economy specifically India. It helps to generate employment, it also help India to become IT and outsourcing hub.

Services in terms of education and healthcare are rapid drivers of India's growth. Tourism and hospitality have also contributed a lot whereas, economic transformation has been driven or fueled by services sector in India. Whereas, at the same time services has made India as a global services exporter as well. In the context of India, services have had a profound influence on countries economic landscape. For example, as we were discussing employment generation.

The services sector is a major source of employment in India. Offering jobs in fields such as IT that is information technology, business process outsourcing that is BPO, telecommunications, healthcare and even education. It has absorbed a significant portion of the young and skilled workforce. Coming to IT and outsourcing hub, in that role India has emerged as a global leader in IT services. The country is known for software development, IT support, call centers and back office operations, providing services to companies worldwide.

Coming to services contribution to Indian economy in terms of education and healthcare services in education and healthcare have been instrumental in bridging gaps and improving living standards. India has become a hub for medical tourism and offers diverse educational opportunities attracting students and patients from around the world. Coming to financial services and its role, India's financial services sector has witnessed rapid growth supporting capital formation, investment and economic stability. The banking insurance and investment sectors play a crucial role in country's economic development. Coming to tourism and hospitality, India's cultural diversity and historical heritage have led to the growth of the tourism and hospitality service industry.

Tourists visit India for its rich cultural experiences contributing to economic growth. Coming to economic transformation, the services sector in India has played a pivotal role in the country's economic transformation from an agrarian based economy to a services-driven economy. Global services exporter that is what services made India on the world map. India's prominence exporter of services including IT, BPO, engineering services and research and development. The revenue generated from these exports significantly contributes to the country's foreign exchange reserves as well.

Now, let us understand the evolution of service sector in India. So, pre-independence era that is before 1947, the limited service sector exists focusing mainly on trade and transportation. Then post-independence era that is 1950 to 80s, we have a socialist economic model where again there was a limited services sector growth happened. Then comes economic reforms of 1990s where we initiated lot of economic reforms and liberalization of growth of IT and ITS sector happened. Coming to 2000s where IT and ITES boom happened, there was emergence of IT hubs like Bangalore, Hyderabad, Pune and wherein IT and BPO sectors were booming with lot of jobs created in those sectors.

And very recently that is after 2010, we can say that there is a rapid expansion beyond IT to finance, healthcare, education, tourism etc. Moreover, there is a rise of startups and digital services in these domains as well. Just to summarize, services have become the backbone of Indian economy. Here are some of the important role services played in Indian economy. First, in terms of enhancing country's GDP, second in terms of generation of employment and number 3 in terms of innovation and technology.

Let's understand each one of these with some more details. First, enhancing country's GDP that is Gross Domestic Product. So, according to India Brand Equity Foundation, India has the fastest growing service sector which is contributing to a 50 percent to the country's GDP. To be precise, as on 2022, it contributes around 53.6 percent. Whereas, the services sector has witnessed 10.8 percent growth in the first half of 2021-22 itself. The gross value added in the services sector is estimated to grow at 9.1 percent in financial year 23. If you look at the services sector of India which largely remains the engine growth of India's economy and contributed to more than 53 or 54 percent roughly.

This particular chart at the right side shows the growth of India's services sector in terms of gross value added at a basic price. So, we can see the trend in terms of the increasing contribution of services from financial year 16 to up to 20. However, maybe because of the pandemic shock that we have received because of COVID-19, there was a slight dip in 2020-21. While going further, we can expect that the services will go on driving rapid Indian economic growth in future as well. Coming to the second contribution in terms of employment generation.

Services sector creates employment opportunities in the country. Before 1983, agriculture and construction sectors were major job creators. But after 1991, after economic liberalization, several soft sectors like trade, hotels, restaurants and transport created lot of employment opportunities in India. Within the service sector, employment opportunity is highest in finance, insurance industries and business services, followed by trade, hotels and restaurants. The service sector has emerged as the highest employment generator with 5 to 7 percent year on year growth in year 2022.

Finally, in terms of contribution of services to channelize innovation and technology in this country. Innovation and technology are powerful drivers of economic growth. They lead to productivity gains, create new industries and improve our quality of life. These innovations attract investments, create jobs and contribute significantly to economic development like the innovations that happen in terms of IT services, healthcare services, electrical vehicle market, renewable energy sources and personalized entertainment industry as well. Now, let us understand how services fare in terms of exports.

The first chart describes the contribution or growth of services in terms of export in the year 2021 to 2022. And we can see that services contributes more than 26 percent in terms of exports. Then what are the industries that contribute to services export? Here we have software services which are leading this exports category, followed by business services, transportation, travel, financial services, insurance, communication and others. What are the top services sector companies in India? Take a moment and guess. Yeah, so these are like Accenture, Infosys, IBM, TCS or Tata Consultancy Services, we have Deloitte and even companies like Wipro as well.

Let us understand few of these in detail and how they are contributing to India's growth story. First is Accenture. So, Accenture is an Irish domicile multinational corporation that has originally founded as Anderson Consulting in 1989. It was rebranded as Accenture in 2001. The company has its headquarter in Dublin, Ireland and is incorporated in Ireland.

Accenture operates in more than 120 countries and has a significant presence in India. So, what are the services Accenture is into? So, they are into providing consulting services, technology services, outsourcing, digital services and security services. So, these are the business verticals where Accenture operates. For example, in terms of consulting, Accenture offers management consulting and strategy services to help clients solve complex business challenges, improve their performance and drive growth. This includes areas such as strategy, digital and even technology consulting.

Coming to technology services, the company provides a wide range of technology services including system integration, application development, infrastructure management and cloud services. They help clients implement technology out solutions to meet their business goals. In the vertical of outsourcing, Accenture offers business process outsourcing that is BPO services including finance and accounting, human resources and customer service outsourcing as well. They help client organize their operations and reduce cost. Across digital services, Accenture is a leader in digital transformation, helping clients leverage emerging technologies like artificial intelligence, data analytics, blockchain and the Internet of Things to transform their business operations.

When it comes to security services, Accenture helps clients protect their digital assets and data by offering cybersecurity and risk management services. In nutshell, Accenture provides different services. The wide range of services includes business strategy and management consulting, technology and application development, cloud computing and infrastructure management, digital transformation and innovation, analytics and data-driven insights, outsourcing services in various domains and change management and process optimization as well. So how Accenture is contributing to Indian economy? First, in terms of economic growth. The company's operations in India have a positive impact on the economy, contributing to GDP growth through its services and the taxes it pays.

In terms of technology and innovation, Accenture's presence in India promotes innovation and the adoption of emerging technologies, which can have a ripple effect on other industries and sectors. Coming to generation of employment, Accenture is one of the largest employers in India. With tens of thousands of employees across its offices and delivery centers, it provides job opportunities for a diverse workforce including engineers, consultants and business professionals. With respect to skill development, Accenture invests in talent development as well and provides training and skill enhancement opportunities to its employees, which then contributes to the overall skill development in the country.

Now let's look at our own Infosys. Infosys was founded in 1981 by N.R. Narayanamurthy and a group of six other engineers in Pune, India. It has since grown to become a multinational corporation with a presence in numerous countries. Infosys is headquartered in Bangalore, India and is known for its expertise in IT services and consulting.

Infosys operates in different verticals like consulting, technology services, business process outsourcing and digital services. With respect to consulting, Infosys offers consulting services to help clients solve complex business problems, improve operational efficiencies and drive digital transformation. This includes strategic consulting, business process optimization and even technology advisory services. With respect to information technology services contribution, Infosys provides a wide range of IT services including software development, application maintenance, system integration, infrastructure management and even cloud services. With respect to BPO or business process outsourcing, Infosys offers BPO services such as finance and accounting outsourcing,

human resource outsourcing and customer service outsourcing to help clients optimize their business processes.

With respect to digital services vertical, Infosys focuses on digital transformation, helping clients leverage emerging technologies like AI or artificial intelligence, data analytics, blockchain and the internet of things to modernize their businesses. So in that shell, it provides services like software development and application maintenance, IT consulting and advisory services, cloud computing and infrastructure management, data analytics and insights, digital transformation and innovation, business process optimization and outsourcing and finally software solutions as well. So how Infosys played a crucial role in India's growth story? So Infosys is a key player in India's IT industry and has made a significant contribution to the Indian economy. For example, with respect to employment, Infosys, one of the largest employers in the IT sector, it has created thousands of job opportunities for skilled professionals and fresh graduates contributing to India's workforce. With respect to skill development, the company invests in employee training and skill development, thereby enhancing the talent pool and promoting education and skills in the IT sector.

Coming to economic growth, Infosys has substantial impact on India's GDP, both directly through the services and indirectly through the growth of the IT employment it has fostered. Technological advancement, with this respect Infosys is at the forefront of adopting and developing emerging technologies. The work contribution to India's position as a global technology hub and encourages innovation as well. With respect to export and foreign exchange, Infosys generates significant revenue from international clients, thereby contributing to India's foreign exchange reserves. Third example of a company which is into services sector is IBM.

John Greiner, Senior VP of IBM once said that IBM Consulting has a third of its significant headcount based in India, a country that continues to be a strategic to the growth plans of the global organization. So consulting contributed to a third of IBM's 60 billion dollar revenue in 2022. This segment was rebranded from IBM Global Business Services in 2021, prior to IBM's split with Khenryl. IBM's offering competes with consulting solutions from IT services majors like Accenture, DCS and even Infosys for large enterprise deals. The company has doubled down on its talent sourcing by setting up centers in tier 2 cities like Kochi, Coimbatore and even Bhubaneswar.

As a market, the company is focusing on key segments like banking, retail, manufacturing, telecom and even public sector programs. Lot of IT companies, let's have something from the finance sector, our own HDFC bank. So HDFC Bank officially known as Housing Development Finance Corporation Limited is one of the leading private sector bank in India. It was established in 1994 and it is headquartered in Mumbai. HDFC Bank has played a significant role in the development of India's financial sector and has a widespread network of branches and ATMs across the country.

It operates in different verticals like retail banking, corporate banking, treasury and wholesale banking, private banking and investment banking. With respect to retail banking, this includes services such as savings account, current accounts, fixed deposits, recurring deposits, personal loans, home loans, auto loans and so on. With respect to corporate banking services, HDFC Bank provides a wide range of financial services to corporate clients including working capital loans, trade finances, treasury services, cash management and foreign exchange services as well. Coming to treasury and wholesale banking, HDFC Bank offers services related to forex, fixed income, money market and even derivative products as well. With respect to private banking vertical, HDFC Bank offers personalized wealth management and private banking services to high net worth individuals.

With respect to investment banking vertical, the bank has a presence in investment banking which includes services such as advisory or we can say capital market transactions, mergers and acquisitions and even structured finance as well. So, in a nutshell we can say that what are the services offered by HDFC Bank, first in terms of retail and corporate banking, second in terms of wealth management services, then we have treasury and capital markets, then trade finance related services and finally even mobile and banking, wherein HDFC Bank has a robust digital presence offering online and mobile banking services to make banking transactions convenient for its customers. With respect to its contribution to Indian economy, HDFC Bank has made substantial contribution to the Indian economy. With respect to employment generation, HDFC is one of the largest employer in the Indian banking sector, providing job opportunities to thousands of individuals including bankers, financial professionals and even support staff. With respect to channeling financial inclusion, HDFC Bank has played a role in promoting financial inclusion in India by offering a range of banking services to individuals and businesses including in rural areas.

Coming to its role in terms of driving economic growth, HDFC Bank operations support economic growth by providing access to credit and financial services to individuals and businesses, thereby fueling economic activity. In terms of foreign investments, HDFC Bank has attracted foreign investment which contributes to India's foreign exchange reserves and the overall health of the economy. Coming to digital innovation, HDFC Bank has at the forefront of digital innovation in the Indian banking sector, wherein driving the adoption of online and mobile banking services. Now, let us look at some recent investment or developments happening in India's services sector. For example, the Indian services sector was the largest recipient of FDI flows worth more than 100 US billion dollars between April 20 to December 2022.

According to the Ministry of Commerce and Industry, the service sector received more than 7 billion US dollars in FDI equity inflow in the year financial year 2022. According to the Ministry of Commerce and Industry, the service sector received more than 7 billion US dollars in FDI equity inflows in financial year 2022. There are more than 2000 DPIIT recognized FinTech startups in India which are striving towards comparatively more contribution to the nation's GDP. By 2023, the FinTech sector in India is expected to be more than 1 trillion US dollars in assets under management. India took the lead with the FinTech adoption rate of 87 percent, sustainably higher than the world average of 64 percent.

According to RBI, the bank credit stood at Rs 132 trillion as of January 2022. The credit to non-food industries stood at more than 126 trillion. Kofors Limited, a global digital services and solutions provider, announced the opening of its center of excellence for the Metaverse and Web3 on August 2022. That's a huge development for in country like India. Coming to healthcare industry which is growing at more than 16 percent CAGR and the total public and private spending on healthcare is currently at 4 percent of GDP.

India's telephone subscriber base also stood at more than 1100 millions as of March 2023. With these kind of happenings taking place in terms of services sector, government has also taken some measures to support and promote services sector. For example, central government has formulated action plan for champion sectors in services to give focus attention to 12 identified champion services sector. In October 2021, the government launched a production-linked incentive scheme to boost manufacturing of telecom and networking products in India. The scheme is expected to attract an

investment of more than Rs 3,000 crore over the next four years and generate additional employment for more than 40,000 individuals.

The Indian government is planning to introduce a credit incentive program worth Rs 50,000 crores. Under union budget 2022, the government allocated around Rs 7,000 crore to the Bharatnet program to boost digital connectivity. FGI limit for insurance companies has been now raised for 49 percent to 74 percent and 100 percent even for some of the insurance intermediaries. Recently, the Department of Telecom, Government of India signed an MOU with the Ministry of Communication, Government of Japan to strengthen cooperation in the areas of 5G technologies, telecom security and submarine optical fiber cable systems. Government of India has launched the National Broadband Mission with an aim to provide broadband access to all villages by 2022-2023.

In the next five years, the Ministry of Electronics and Information Technology is working to increase the contribution of the digital economy to 20 percent of GDP. So, in this session, we learned we tried to comprehend the role of services and we also looked at the role of services in terms of modern economy like India. Thank you.