

Press Release

Software Exports to Rise on SME Strength- Skoch Study

- **Growth at twice the industry rate at 41%**
- **Contribute 57% of total exports**
- **Share in ITeS up at 87.9%**
- **Largest employer in Software**
- **High dependence on STPI Eco System**

New Delhi, 8th August 2002: Small and Medium Enterprises (SMEs) software exports grew at an impressive 41% in 2001-02 compared to only 20% growth of overall industry amidst a slowing down environment, says "Skoch Study of SME's in Software Technology Parks of India (STPI) Ecosystem" released today. "This totally negates the common perception about SMEs being hit more by the slow-down compared to large companies; truth is quite to the contrary." Says, Sameer Kochhar of Skoch Consultancy Services.

There are a total of 3329 Software exporting companies in India out of which 3302 are SME (under \$50 million export) and only 27 companies are large (over \$50 million of export).

The study pegs total exports from all STPI companies at \$6.2 billion in 2001-02 representing between 85- 90% of total Software exports from India out of which, SME exports were \$3.54 billion constituting over 98% of total SME export from India. This constitutes a 57% market share in STPI exports vs. only 43% share of large companies.

283 SME companies were active in the field of IT Enabled Services (ITeS) contributing \$1.31 billion out of a total of \$1.49 billion ITeS exports – a hefty 88% market share. The growth rate in this segment was a whopping 67% for SME's. They also contributed \$2.2 billion out of a total of \$4.7 billion of IT Services (ITS) exports. The IT Services export from SME again grew at 29% compared to only 18% for the overall industry.

SMEs were found to be the largest employer amongst all companies engaging 247356 people compared to only 125930 employees of the large companies. The per head productivity per hour of SME's last year was \$6.8 up 3%, compared to \$10.12 of large companies down 7% from the previous year. The low per head productivity is on account of ITeS almost entirely being in the SME sector. "Looking at the fantastic growth rate of SMEs in ITeS and their market-share, we expect this current group to account for between \$12 - \$14 billion of exports by 2005, throwing up a whole new set of entrepreneurs and industry leaders that are largely unheard of so far," added, Kochhar.

National Capital Region of India is emerging as a fertile ground for SMEs with 22% of them based there, followed by 19% in Hyderabad, 16% in Bangalore and Mumbai at 10%. Even the quality of revenue mix of SMEs was found to be superior to large companies with 69% of revenue being offshore compared to 53% in the case of large companies – implying a lesser dependence on body shopping.

The qualitative dimension of the study showed a high degree of dependence on the STPI Ecosystem by SMEs compared to large companies. The benefits seen were in the area of enablement, buffering and bridging role vis-à-vis other government departments like labor, Customs and State owned infrastructure.



The problems that a majority of the companies identified as major stumbling blocks were access to capital, need for improvement in SME facilities and infrastructure and the bias against SMEs for acquisitions and mergers under section 10A and B of the income tax act. Lack of marketing funds was again an area of acute concern.

For SMEs to meet and even possibly exceed the \$14 billion export projections by 2005, these areas would need to be addressed on a war footing.

While access to market was also a common enough problem, the study noted several examples of innovative solutions for the same by SMEs. Some of the companies have either already set up their own consulting front-ends in US and Europe or have got into agreements with existing front-ends in their area of domain expertise.

In 2002-03 Skoch expects the SMEs to be able to maintain a substantially higher growth rate than the overall industry growth rate of 20%.

About Skoch

Skoch is an independent industry analysis and strategy consulting company based out of Gurgaon. It engages with several Fortune 500 as well as SME companies world-wide and carries out periodic studies and research in the Asia-Pacific region. For further information, please contact skoch@skoch.org