

Challenges faced in engineering export services

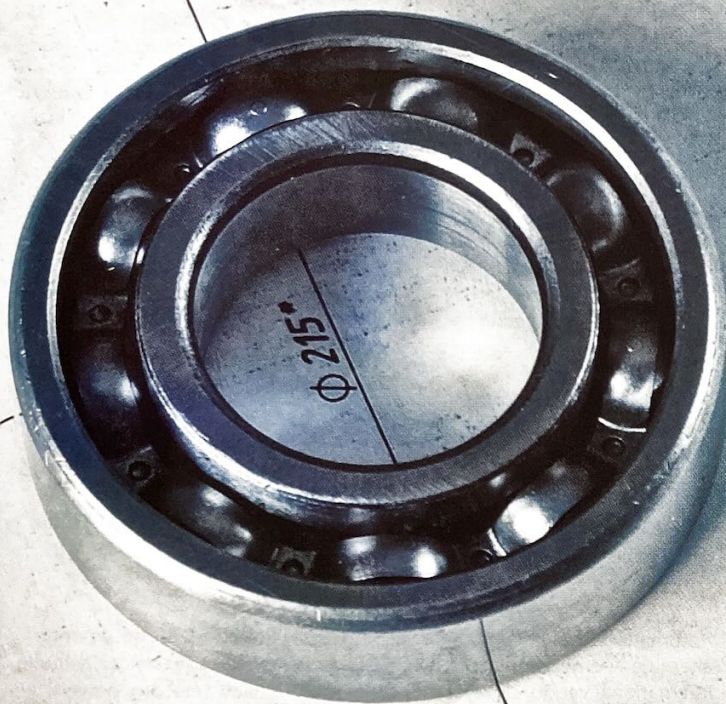
ANALYSIS

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Chemtex Global Engineers Pvt Ltd have continuously excelled in the business of providing engineering export services to clients all over the globe. Over the years, the company has been regularly receiving awards at the national level as well as the regional level.

Though the company and the business



sector was able to meet the challenges faced during the global slowdown in 2008 as a result of a good order backlog, the situation this time around seems more difficult and challenging.

Consequent to the downturn faced in the US economy and the meltdown in the EU economies there is a complete slowdown in the business flowing to India from these economies.

Majority of the concerns have been caused by recessionary conditions in both these

economies resulting in freeze of further capacity expansions and investments due to adverse financial conditions. The problems faced by the finance and banking sectors in these economies have made financing of projects unviable, resulting in massive slowdown of orders.

Apart from the above factors the engineering service industry in India has lost its competitive edge which it had till a few years back due to spiralling costs of manpower retention and increase in commercial infra-

structure space. It may be noted that India was considered as a favourable business destination for providing engineering export services due to labour arbitrage advantage, reasonable cost of commercial office space, upgraded technology innovations, vast pool of qualified engineers and competitive business parameters on productive, utilisation and quality of services rendered.

These factors have undergone a significant deviation in the last few years resulting in higher manpower cost, higher attrition rates, lower productivity, higher training period, resulting in lower utilisation thereby affecting the quality of services rendered. Coupled with all these is the fact that commercial realty is extremely expensive (especially in the metro cities) resulting in the phenomenal rise in cost of maintaining infrastructure and transportation, thereby increasing the cost (transfer price in dollar terms) significantly and reducing the competitive advantage enjoyed by India in this line of business.

The adverse factors affecting the business climate in India has resulted in clients especially in the US and EU exploring opportunities in other Southeast Asian countries such as China, Indonesia, Malaysia, Taiwan and the Philippines. Though China maybe at par with India in terms of cost structure, they have advantage over India in terms of better productivity which is at least 25-30 percent more efficient. The other countries enjoy labour as well as infrastructure arbitrage compared to India and have significantly invested in talent management thereby providing tough competition in this business.

We in India will have to strongly focus on improving our economies of scale in terms of efficiencies in project execution, better utilisation of resources, higher productivity, better talent management to ensure lower attrition and better quality to protect margins and remain competitive in the global scenario.