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SETTING UP OF AN INTERNATIONAL SUBCONTRACT EXCHANGE
FOR ANCILLARY INDUSTRIES IN INDIA

DP/IND/72/028

INDIA

Terminal Report

Prepared for the Government of India
by the United Nations Industrial Development Organization,
acting as the executing agency for the United Nations Development Programme

Based on the work of E. Edwards, adviser in
setting-up subcontract exchanges

id.78-8395

Explanatory notes

The monetary unit of India is the rupee (Rs). During the period of the project, the value of the rupee in relation to the United States dollar was \$US 1 = Rs 8.05.

The following abbreviations are used:

EEC	European Economic Community
EPC	Export Promotion Council
KASSIA	Karnataka Small-scale Industries Association
SISIs	Small Industries Service Institutes
VITC	Visvesvaraya Industrial Trade Centre, Bangalore

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ABSTRACT

The project "Setting-up an international Subcontract Exchange for Ancillary Industries in India" was carried out by an expert from the United Nations Industrial Development Organization (UNIDO), executing agency for the United Nations Development Programme (UNDP). The project started on 9 August 1978 and ended 8 November 1978.

The principal aim of the project was for the expert to examine the feasibility of establishing an international subcontract exchange for Indian ancillary industry. A subcontract exchange is a centralized information point set up to advise a potential buyer of companies competent to satisfy his requirements over the whole industrial spectrum. The expert was also requested to review the working of the existing domestic exchanges and, where appropriate, make recommendations for their improvement. In addition, he was asked to provide a framework for the development of new domestic exchanges.

The expert recommended that the exchanges be transferred from the Small Industry Service Institutes (SISIs) to the control of a public limited company^{1/} in each State. This should be funded by a grant (contributed equally by both Central and State Governments) reducing to zero over a four-year period. After two years' operation, it is recommended that user companies (of whatever size) be charged a subscription based on the number of employees and that a commission be levied on all foreign orders received through the exchange. Each such company will be required to sign a service agreement with the exchange.

The state-based exchanges will be co-ordinated by the International Subcontract Exchange in New Delhi. This will, in turn, be controlled by a public limited company with a two-tier board. There will be a small executive board of 12 directors, and a larger advisory board, representing all the Export Promotion Councils.

Wherever possible, the exchanges should be located in the same building as the Trade Centre. It is also recommended that 'inverted trade centres'^{2/} be established.

^{1/} In India a company that cannot restrict the transfer of its shares is called a public limited company; and the one that can do so is called a private limited company.

^{2/} A showroom in India displaying articles in use abroad to give an Indian manufacturer an idea of the design, colour, material etc. of an article in use in foreign countries, and details about its pricing.

The expert recommended most strongly that a reappraisal of India's overseas trade representation followed by a rationalization should be carried out to effectively concentrate its export marketing, now dissipated through several agencies and offices.

CONTENTS

<u>Chapter</u>	<u>Page</u>
INTRODUCTION.....	6
I. FINDINGS.....	8
Visits to state exchanges.....	8
Importance of marketing.....	10
Visits to export organizations.....	12
II. CONCLUSIONS AND RECOMMENDATIONS.....	13

Annexes

I. Job description.....	21
II. Proposed International Subcontract Exchange, New Delhi.....	23
III. Summary of a report on visits to five exchanges in September 1978 (Bombay, Hyderabad, Madras, Bangalore and Calcutta).....	24
IV. Membership of the board of control for a state subcontract exchange.....	26
V. Staff, equipment and accommodation for a proposed state subcontract exchange.....	27
VI. Budget for a state subcontract exchange.....	30
VII. Suggested form of service agreement for the operation of a state subcontract exchange.....	33
VIII. Composition of the board of directors for the proposed International Subcontract Exchange in New Delhi.....	35
IX. Staff, equipment and accommodation for the proposed International Subcontract Exchange.....	36
X. Budget for the proposed International Subcontract Exchange.....	38

INTRODUCTION

The project "Setting-up an International Subcontract Exchange for Ancillary Industries in India" was carried out by an expert (annex I) from the United Nations Industrial Development Organization (UNIDO), executing agency for the United Nations Development Programme (UNDP). The project lasted three months, from August to November 1978. No counterpart was assigned during the project.

The principal aim of the project was for the expert to examine the feasibility of establishing an international subcontract exchange for ancillary industry. He was also requested to review the working of the existing exchanges and, where appropriate, make recommendations for their improvement. In addition, he was asked to provide a framework for the proposed development of new exchanges.

The International Exchange was seen as an industrial and technical information centre to assist large firms find competent subcontractors without waste of time. It was hoped that that would lead to a better utilization of the capacity of the small-scale sector. By such a division of labour, the large units, while enjoying the lower prices and faster turn around of the smaller specialist units, would be able to devote their energies to assembly and marketing. The small firms would also, by those means, enjoy a more even flow of work, and a more economical loading of their machinery.

The original exchanges operated chiefly in the field of mechanical engineering, dealing mainly with large firms in their immediate neighbourhood, and occasionally with companies and exchanges in other areas and States.

It is the Government's intention to broaden the scope of these exchanges to encompass all industrial sectors allocated to small-scale industry. If then, the exchanges can be co-ordinated on a national scale, from a trade centre in Delhi, it would be possible to offer a foreign buyer detailed information on any registered and competent subcontractor across the whole industrial spectrum.

Such a service, called an international subcontract exchange, though simple in conception, would assist worthwhile small units in any part of India to become successful exporters. It is stressed that, throughout this report, the term sub-contract is interpreted in a very liberal sense. It is used as a notation for the supply of any item, from a component part to the whole

item, manufactured or produced in India, for the use of a local or a foreign buyer. The sectors include footwear, electronics, handicrafts, mechanical engineering, furniture etc.

I. FINDINGS

Visits to state exchanges

From the outset, the emphasis from the Government side was on the preparation of the proposal for the International Subcontract Exchange. A working paper was, therefore, prepared during the first weeks of the expert's stay in Delhi (annex II). It was not sufficiently realized or accepted, however, that the success of the International Subcontract Exchange would depend critically on the existence of efficient exchanges in the principal industrialized States.

It was agreed that the expert should visit several of the more important exchanges, and a three-week tour of the exchanges in Bombay, Hyderabad, Madras, Bangalore and Calcutta was carried out in September.

In the expert's Job Description it was stated that there were currently 17 exchanges operating in the country. Generally, the exchanges were found to be below the standard that would enable them to function effectively on an international basis. That was due to many causes: lack of essential facilities (personnel, accommodation, equipment) and a general lack of understanding of the purpose and mode of operation of a subcontract exchange (annex III).

All the exchanges produced too much paperwork, and were operated by personnel sitting in the office and sending letters asking subcontractors to call at the exchange, rather than going to visit them. There was too little understanding of the essential need to visit all companies, large and small, using the exchange, and not enough aggressive pursuit of new sources of inquiries. As only one officer was required on duty at the exchange, all other officers could be used for visiting. There was also a tendency to boost the monthly figures by getting large bulk orders from public sector companies, requiring little more than routine effort.

All units, especially the small ones, could be given a supply of standard inquiry forms, to simplify the sending of inquiries to the exchange. Handwritten inquiries and free-hand sketches should be accepted.

All exchanges reported a drop in the number of inquiries coming from the large units, coupled with a widening of the range of the inquiries beyond the original mechanical engineering field. Inquiries extend into the fields of

electronics, ceramics, glass, plastics etc. and are no longer routine but are becoming increasingly more difficult to solve. Import substitution inquiries now form a larger proportion of the demand, and an encouraging trend (reported by Madras) is the growing use of the exchange by small units.

The problem of how to increase the flow of inquiries was discussed and it was realized that it must be tackled from many angles. The basic rule is to visit, to visit again, and to keep on visiting. This is essential if an exchange is to survive. It is only by this means that user companies can come to know the true potential of an exchange, and how to use it correctly to their ultimate benefit. In England it has been found that a visit almost invariably results in an inquiry. In the experience of the expert, most subcontract exchanges (not only those in India) are underused by their clients.

The expert suggested the use of a telex for advertising the exchange to large companies. The purchasing manager of such a unit, outside the immediate urban area, should be approached by name and title and briefly told what service the exchange could offer his company in its specific field. That should be immediately reinforced with a letter.

Too many exchanges considered the large companies merely as work sources and had not considered listing the capacity available in those companies for outside work. For example, a large company may have been forced to buy a specialized machine for its own production, there being no such capacity available locally. Such a machine is often not fully loaded.

It was noted with concern that many people take a very narrow view of the role of a subcontract exchange. There seems to be a current belief that there should be an exchange listing capacity, and dealings only in subcontract inquiries from the local large companies. There should then be another exchange in the State, dealing with products, and co-operating with the International Subcontract Exchange to handle inquiries emanating from abroad.

This was reflected in the approach of one exchange where they were developing a new concept system to handle products. (The original list of concepts was compiled in early 1970 to handle the inquiries, mainly engineering, of that period.) There was no reason why the concepts could not be developed to cater for other sectors (including their products) such as electronic, handicrafts etc.

It was also not sufficiently well known that the information system could, and should, record non-manufacturing data on a unit, for example, the technical/managerial qualifications of the management; if they were exporters; the size of the factory; and the number of shifts.

As the tour progressed, it became increasingly apparent that the failings were not those of a particular exchange but were basic to all exchanges. Within the few days available at each, through discussions with the staff, an attempt was made to update information and techniques and to correct errors that had crept in over the years. At Madras, and later at Calcutta, teaching notes were prepared each day.

Those notes formed the basis of a syllabus of a three-day seminar held at the SISI Bombay between the 2 and 4 November. The objective of the seminar was to review all operating procedures in the light of eight years experience and also to broaden the rather narrow view taken of the scope of a subcontract exchange. In the event, only three working officers from the exchanges visited were present, and most of the time was spent redrafting a procedures manual prepared by the Development Commissioner's Office. Problems common to all exchanges were aired, and there were useful discussions on the wide role an exchange can play in the industrial expansion of its operating area.

Importance of marketing

Good documentation is important in the export field, but reading market predictions and field reports in a chosen sector is only a prelude to action. The ultimate objective is to get an order from a foreign buyer. The Centre for Assisting Imports from Developing Countries (CBI) in Rotterdam can be used or the Import Opportunities Office in London. However, this type of organization is yet another screen between the manufacturer and his final goal, the buyer. It is believed that there are international subcontract exchanges abroad to which the Indian International Subcontract Exchange can simply plug-in to receive a never-ending stream of inquiries.

The exchanges in the European Economic Community (EEC) are few in number and generally work only within the community, although they are now broadening their base. Also, they were originally biased to the mechanical engineering sector.

A great deal can be done from an office in India by writing letters to important companies in a chosen sector addressed by name and position to the man in charge. The letter should not describe all products made in India, or even all products made in that sector i.e., electronics, but only those electronic products which will interest that company. That is a time-consuming but very effective method of making contact with foreign companies.

Good sales literature is essential. It is too often forgotten that the company's letter-head and sales leaflet is the first image that the potential buyer receives of his future supplier. Many companies undersell themselves omitting such facts as the graduate qualifications of the management, well-known companies they supply etc. The expert saw badly printed catalogues with appalling spelling mistakes. Despite the factual excellence of the product, such an approach can cast doubt in the buyer's mind as to the manufacturing competence of the unit.

There is no real substitute for being on-the-spot to meet buyers. However, a foreigner surveying India's trade representation overseas is struck by the multiplicity of offices, which can only lead to unnecessary duplication of function and of sectoral coverage. In one large city there may be several offices, each one covering either one commodity or sector or serving only one of India's external trade organizations (TDA, STC, EEPC etc.) In addition to being uneconomical, more important, such diversity is confusing to a potential buyer. If a foreign customer enters a TDA office, for example, and is redirected to another Indian export office, he may never arrive there! It is a fact of retail merchandizing that a customer out-of-the-shop is a customer lost.

The idea of an ancillary unit has served well in India, to upgrade small units by tying them to a parent company that can supply them with work and help them to upgrade their technical ability. However, it is dangerous to carry over this idea into the international field. If a foreign buyer places an order with an Indian shirt manufacturer in the summer of 1978, it does not mean that he will henceforth become a regular supplier of that company. In 1979 he will have to compete again with other similar companies from various developing countries.

Finally, it is stressed that trade directories of varying sizes and accuracy are found in every industrialized country in the world. Their information is

always historical (having been gathered long before publication), too sketchy, and rarely checked by a visit to the factory of the unit listed. It has been the expert's experience, after talking to buyers in many EEC countries, that a buyer has far more confidence in the information before him, if he knows that it is based on a personal visit to the company by a competent specialist.

The sole reason for the existence of a subcontract is that it can give the highly-directed, accurate information demanded by the professional buyer: information based on visits to the supplier. Otherwise, it is no better than any run-of-the-mill directory, and should be closed down.

Visits to export organizations

During the tour of the exchanges early in the mission, a few organizations and small units were visited. However, the bulk of the interviews took place on the expert's return to Delhi at the end of September. The object of these visits was first to explain the proposal of establishing an International Subcontract Exchange and co-ordinating a network of efficient exchanges located in each state. The opportunity was also taken to discuss structural and organizational difficulties that might arise in implementing the project.

Industrialists, semi-official bodies and foreign embassies were unanimous in their interest in the proposal. They agreed that if the system could be operated with a high degree of efficiency, it would, indeed, be a remarkable operation. Their enthusiasm was qualified, however, by a healthy scepticism as to the ability of a government or quasi-government body to operate efficiently in the commercial world, especially internationally.

The project is concerned with the feasibility of setting-up the International Subcontract Exchange. However, as will be noted, the bulk of the 'Findings' are taken up with the organization of the state exchanges. The International Subcontract Exchange is merely a clearing-house for inquiries from overseas. However, if the exchanges in the States are inefficient in the handling of those inquiries and provide faulty information to the suppliers owing to insufficient visiting, then the whole system will collapse. It should be realized that the International Subcontract Exchange rests solidly on the state exchanges, and their efficiency, or otherwise, will be reflected in its performance internationally.

II. CONCLUSIONS AND RECOMMENDATIONS

The subcontract exchanges currently operating are based on the various SISIs in the capitals of the States. Their stage of development and their operating performance, eight years after the initial launch, is not encouraging. There are constraints in a purely governmental establishment that conflict with the demands of the commercial and industrial worlds. Also, personnel in government service tend to be more cautious and less enterprising than their contemporaries in business and industry.

For the foregoing reasons, it is recommended that the state-based exchanges be transferred to the control of a public limited company, registered in the State. The exchange should be located in the principal industrial area of the State, not necessarily the State capital. (This may at times conflict with the suggestion made below that the Trade Centre and the exchange should be housed in the same building.) The composition of the board of directors, the staffing, accommodation and equipment required, and the budget, are set-out in annexes IV-VI. The staff should be graduate level engineers from various disciplines, reflecting the industrial bias of the State. Their main function should be visiting the units in their care.

The directors should determine the exchange's overall policy and its funding, and should also select the exchange's technical director. It is recommended that the board should consist of not more than 12 members. It should not be a debating society, but an executive instrument. The composition of the board of directors should represent both Central and State Governments, small-scale industry interests, and also the views of the differing specialist sectors in the State (e.g. Bangalore and Hyderabad: electronics; Ludhiana: hosiery and machine-tools).

For the first five years of its operation the exchange should receive a grant from the State and Central Governments. The grant should reduce at 25% per annum, starting with the second year, so that the exchange must be self-financing at the end of the fifth year. After two years however, the exchange, if efficiently run, should be able to show that it is an useful and effective organization.

It can then begin to charge for its services. Each company registered with the exchange will be required to sign a service agreement (annex VII) that defines the service offered by the exchange and the rights and obligations of the user companies. The agreement will give the exchange the right to levy an annual subscription, to refuse entry to the exchange, and to expel companies that do not observe its Code of Conduct.

Charging commission on in-State and inter-State work received through the exchange's agency is an attractive proposition. However, the expert does not believe it to be practicable, being difficult to collect. It is recommended that a modest commission be charged on all work supplied by the exchange from foreign companies. The orders could be easily isolated, for accounting purposes, and would be substantial. Any company trying to evade payment of such a commission could be expelled from the exchange, thus greatly reducing its work sources both inside and outside India. If the exchange is a successful provider, this could, indeed, be a very strong sanction.

If there is a trade centre in the same State, the exchange must, wherever possible, be located in the same building. Thus, a potential buyer (from inside or outside India) seeing a product on display, could, under one roof, obtain detailed information on the company manufacturing the product. It is appropriate to quote here a brief extract from a recent KASSIA Bulletin.

"... It has been the experience of VITC and also of prospective buyers (within the country and foreign countries) visiting the Trade Centre that they are not able to get comprehensive information readily about products manufactured in the State because of lack of information about the products by means of catalogues, the immediate persons to be contacted, and the number of industries manufacturing products in the particular line etc., at one single place. Thereby quite a few inquiries could not be processed, resulting in losing good markets".

The 10 present trade centres (existing or projected) are intended to show Indian and foreign buyers products made in the individual State. The expert proposes having 'inverted' trades centres where an Indian manufacturer could inspect typical examples of his competitors' products on sale in his important foreign markets. For example, a shirt-maker could see shirts on sale, say, in the Netherlands in the style (leisure, sports etc.) and the price range in

which he operates. He would then immediately be aware of the competition he faces. Each article displayed would carry a label stating the country/place/date of purchase, and the purchase price in United States dollars, local currency and Indian rupees. At a later date, a more ambitious development of this system could be planned to enable the Indian producer to buy a sample to take away to his factory for detailed inspection. The buying side of this venture would, of course, entail close co-operation with India's foreign-trade representation.

Some considerable time could elapse between an acceptance of this proposal and the implementation of its recommendations. In the intervening period, the state-based exchanges, still within the purview of the SISIs, must be brought up to standard, and maintained at this level, until such time as a smooth hand-over of power can take place. It may be useful if SISI exchange personnel could be seconded to the new exchanges for the first few months after they open.

The prime objective of the state-based exchanges, and of the International Subcontract Exchange to be based on them, is to assist small-scale industry to be more productive, and to become better and larger exporters. It is not believed, however, that the membership of the state exchanges should be rigorously confined to small units. The very large units have their own efficient trade intelligence systems, but there will be companies who, slightly beyond the legal limit of small-scale can, nevertheless, greatly benefit from the services of these exchanges.

The visiting of units, on which great stress has been laid, pays dividends beyond the mere collection of information. The exchange will often have to check and control the quality of products, and render industrial and exporting consultancy assistance where necessary. Sometimes the request will come from the unit itself but, more usually, it will arise from the observations of the exchange's field officer. If the exchange offers detailed export assistance to small units, consideration may be given to helping them to form consortia (such as those already working in Madras and Coimbatore) working closely with the exchange as the source of inquiries. At a later date in its development, the exchange itself may have to consider becoming an export house.

There is an interesting development being tried at present in Finland by the Finnish Foreign Trade Association (FFTA). It is called Export Manager

on Loan (EML). The experiment came from the realization that although the advice on market conditions and on export promotion facilities was adequate, they needed to improve their efforts on export planning and marketing technique. A businessman, experienced in the export business, was taken on to the staff of EFTA, and hired out (at a subsidized rate) to companies in a particular sector. The overall contract covered a period of about six months, but the consultant spent no more than a week in each company at any one time, on a rotational basis. Four sectors were identified and were given this treatment: engineering, ready-to-wear garments, boats, and furniture.

The state-based exchanges, quite clearly, are intended to foster the interests of their own States. The International Subcontract Exchange, on the other hand, must take a national view of its functions and responsibilities, and must represent the interest of all worthwhile small-scale industry in the country. There are arguments for each State operating its own international subcontract exchange and the aversion to being controlled from Delhi is understood, but such an approach would increase the fragmentation in India's official export drive that was commented on earlier.

It is recommended that an international subcontract exchange should be established in New Delhi. The International Exchange should be operated through a public limited company (as in the case of the state exchanges) with a board of directors (annex VIII) representative of these interests. One way of doing this is to have on the board all Export Promotion Councils (EPCs). If additionally, there are a few governmental nominees, there will be a board of over 20 members. This, the expert believes, would be too unwieldy for effective decision-making.

Therefore, a two-tier board is proposed. The executive board should consist of 12 people, and the (lower) advisory board should represent all the EPCs and any other organizations considered relevant. The members of the advisory board should, each year, elect seven of their members to serve on the executive board. As all members of the executive board have one vote, the industry side could never be outvoted by the official side. As with the state exchange, the executive board should select the exchange's technical director, determine its funding, and, in conjunction with the advisory board, determine the overall policy of the exchange and how it is to charge for its services.

The initial cost of the International Exchange should be borne wholly by the Central Government. The grant, after a period of five years, should be reduced or withdrawn, depending on the Exchange's progress. The support must be for a longer period than that in the case of the state exchanges, as the task of the International Exchange would be far more difficult, and its operating expenses far higher, especially if it is involved in overseas operations, such as trade fairs, trade delegations, and shares in overseas offices. No direct charge should be made to a foreign buyer. However, the Exchange should charge a small commission on all orders that are placed with its help. (This could be at a lower rate than that charged by the state exchanges for similar work, since it will handle, overall, a greater volume of work.)

The location of the International Exchange should be in a prestige location in New Delhi probably over one of the major banks, or in one of the many large office blocks on the south side of Connaught Circus. The staff of the International Exchange should be drawn from the purchasing office/sales representative side of commerce and industry. Their main function would be to meet foreign buyers visiting India, to discuss their requirements, and to put them in touch with suitable units through the medium of the state exchanges. Details of staffing, accommodation and equipment, and the budget, are given in annexes IX and X.

Clearly, if the International Exchange is to succeed, it must be publicized on the widest possible scale, and should have one of its officers present on the stand of every major Indian exhibition overseas. His speciality should, whenever possible, be matched to the needs of the exhibition. It should then be possible, with an efficient exchange system (International and all state exchanges) to accept trade inquiries on the stand for immediate processing, so that within a few days after returning to his office, the buyer should receive the information (prices, delivery etc.) that he asked for.

The purpose of setting-up a network of state-based exchanges linked to foreign markets through the International Subcontract Exchange, is to give a foreign buyer all-India sectoral coverage coupled with detailed on-the-spot information on all units, backed up by visiting. The information on the units, and the quotations, should be passed to Delhi for onward transmission to the buyer. A summary of the quotations should then be telexed to him, and the full quotations, accompanied by photocopies of the item cards of the units (company profiles), sent on to him by air mail.

The target should be that, if the buyer eventually takes up the offer and pays a visit to the units who have quoted, he should feel that he had already been there, so complete and accurate would be the information sent him. If the exchange system could provide data no better than the scanty (and often unverified) information available in the various sectoral directories, then it would have no basis for existing.

The present concept/item card system, with an up-to-date list of concepts, can handle the information from 4,000 or even 3,000 units over all industrial sectors, including their products, materials, and bought-out, i.e. off-the-shelf, components. The real problem is not, however, information processing, but keeping close, if not personal, contact with the units. A reasonable size is 4,000, and 3,000 should be considered an absolute maximum. When an exchange (usually the principal one) is going to exceed these limits, then the establishment must be considered of satellite exchanges in other fast-growing industrial areas in the State such as Visakhapatnam in Andhra Pradesh. The system must be flexible so that the satellite exchange can deal directly with other exchanges in neighbouring States. International inquiries, however, will always be routed through Delhi and the state capital.

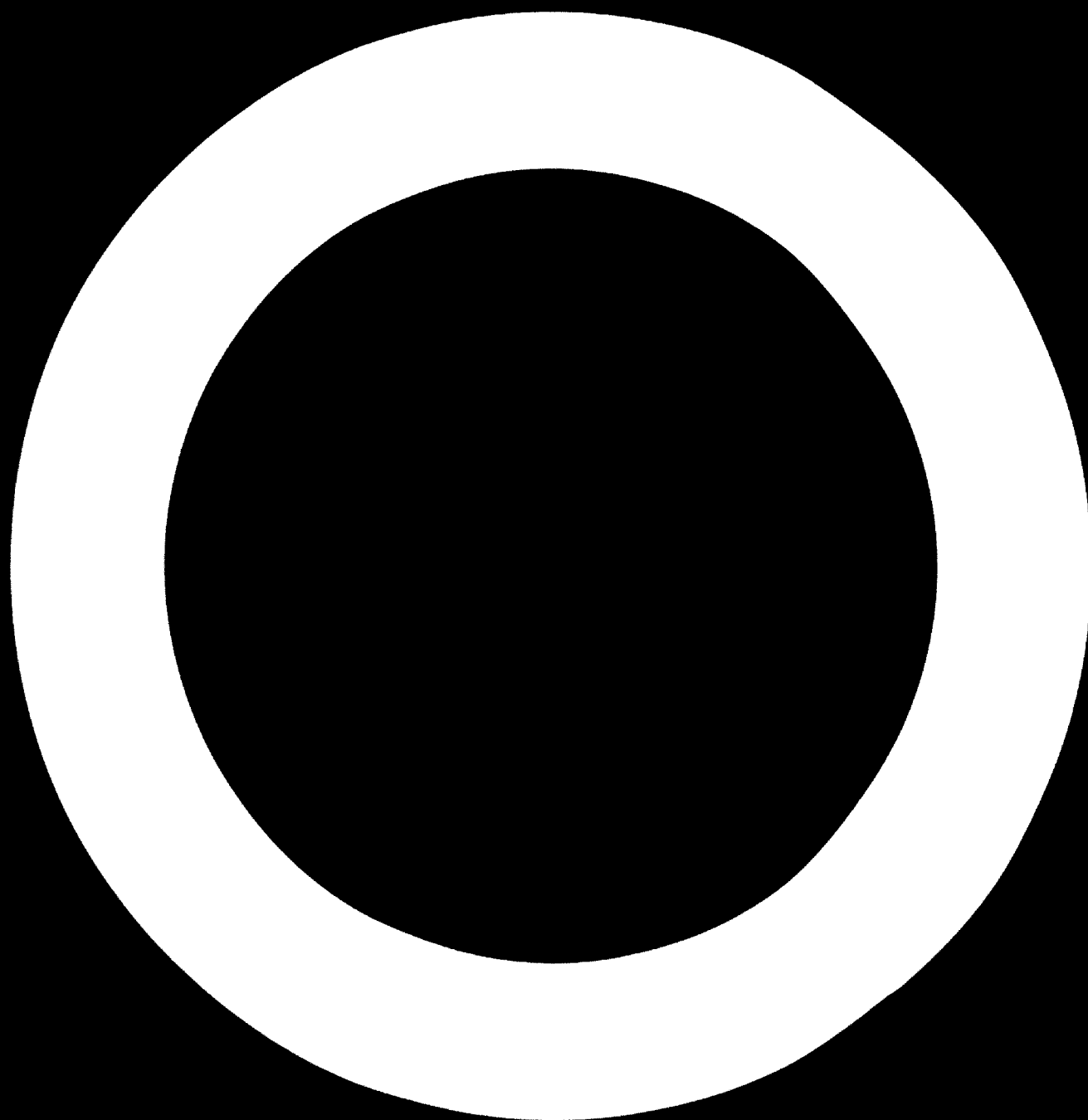
It is possible to adapt the usage of the present concept system to work into a computer system. However, for inter-exchange and international work, the expert strongly advises against the use of coding, especially of a numerical type, where transposition of digits is always a hazard. Coding is a process of translation and is open to misinterpretation and error. It is far better to send all messages in plain language, and thus avoid any expensive misunderstanding.

It is possible to compress all concepts into meaningful six-letter abbreviations so that, for instance, the original concept chemical-engineering becomes **ENGCEM** or **CEMENG**. This concept will be tagged with the Item Card number of the unit and also with the exchange number (two digits) - or a two-letter mnemonic alphabetic code can be used - plus a check digit to check for miscoding. By this means, the system can be developed smoothly without the complete break that could occur by changing from an understandable, working system to a completely different one.

It was suggested several times, during the mission, that data on, say, 200,000 small units, in all sectors, from all over India should be recorded on

a central processor in Delhi. This is, of course, technically feasible with present-day data-processing techniques. If it is done, when processing an inquiry, the Centre will have to advise the state exchanges of the names of the relevant firms, or itself make direct contact with the selected units. The expert considers it more practicable to route the inquiry to the state exchanges (one telex tape only is required), bearing in mind the necessity of personal contact with these units. The state exchanges are then free to deal with the inquiry in their own way. Any dilatoriness on the part of a particular state exchange penalizes that State only.

The expert considers that sufficient UNDP funds have been employed to establish subcontract exchanges in India. Since the proposals anticipate that both the International Exchange and the state exchanges will be initially funded by Central and State Governments, and will eventually become self-financing, no further assistance from UNDP is anticipated.



Annex I

JOB DESCRIPTION

Post title: Adviser in Setting up Sub-Contract Exchanges

Duration: Three months

Date required: April 1978

Duty station: New Delhi; with travel within the country

Duties: The expert will be attached to the Ministry of Industry, work closely with the Development Commissioner, Small-Scale Industries and will be specifically expected to:

1. Examine the feasibility of setting up an international sub-contract exchange
2. Devise a suitable system of providing adequate linkages with similar international exchanges abroad and existing sub-contracting exchanges within the country
3. Suggest proper manning and organizational patterns for both the proposed international and domestic sub-contract exchanges
4. Devise a suitable standardized coding system which would be applicable internationally

The expert will also be expected to prepare a final report, setting out the findings of his mission and his recommendations to the Government on further actions which might be taken

Qualifications: Industrial Engineer with extensive experience in organizing and running sub-contracting exchanges

Language: English

Background information: There are currently seventeen sub-contract exchanges operating in the country and it is proposed to set up an international sub-contract exchange with suitable linkages with similar sub-contract exchanges. There would, thus, be a net-work of domestic sub-contract exchanges which in turn would be linked with various sub-contract exchanges abroad through the media of the international sub-contract exchange. The subcontract exchanges would on the one hand keep in touch with the large houses in assessing their require-

ments and on the other hand with prospective manufacturers in the small scale sector who could meet their requirements both qualitatively and quantitatively. This would go a long way in solving the problems of the large scale industries by locating suitable ancillary suppliers for them and would also help the small-scale units in as much as they will get regular buyers. It will also provide avenues to these small-scale units for entering the export field on a regular long term basis

Annex II

PROPOSED INTERNATIONAL SUBCONTRACT EXCHANGE, NEW DELHI

Discussion paper (summary) (9 pages plus 3 Appendices)

An international subcontract exchange in whatever country it operates, is a communication centre for putting foreign buyers in touch with potential competent subcontractors in that country.

Based on this definition, the necessary criteria for the proposed International Subcontract Exchange in New Delhi are:

- (a) Careful selection of all subcontractors;
- (b) Provision of industrial level consultancy and expert services to assist good units;
- (c) Importance of the Exchange itself adopting an aggressive marketing policy overseas;
- (d) Necessity of fast and accurate communication links between the Exchange and its overseas information gathering points;
- (e) Need for high calibre professional staff (overseas, Delhi, state exchanges);
- (f) Location in a prestige central point in New Delhi and all necessary modern office machinery;
- (g) Ability (itself) or through state exchanges to help with all exporting problems (see (b) above);
- (h) Necessity for close and co-operative working with other government departments also working in the same field;
- (i) Aims and working procedures of Exchange to be under constant review;
- (j) Principal aim, to put Indian subcontractors in touch with foreign buyers.

The paper then follows a fictitious foreign inquiry from its reception in Delhi down to the state exchanges, back to Delhi and to the transmission of the replies to the overseas buyer.

The paper suggests that state exchange personnel should be drawn from the industrial field, the staff at Delhi from the purchasing officer/sales representative class.

Annex III

SUMMARY OF A REPORT ON VISITS TO FIVE EXCHANGES IN SEPTEMBER 1973
(BOMBAY, HYDERABAD, MADRAS, BANGALORE AND CALCUTTA)

The report notes the generally low standard of the exchanges owing to lack of facilities (men, accommodation and equipment) and to a lack of understanding of the principles and method of operation of an exchange. Recommendations for their improvement are given below.

Recommendations for immediate remedial action

Each exchange must have the items listed below.

1. Direct outside dialling telephone facilities.
2. Immediate access to the telex machine, which should be within the exchange area.
3. A competent stenographer (telex-trained).
4. Direct delivery of all letters specifically addressed to it.
5. All forms essential to its proper working, and essential office supplies.
6. A modern Xerox-type dry photocopier, which should be adopted as standard for all exchanges.
7. Its accommodation rearranged to make the exchange proper a prohibited area to the general public.
8. A separate area, preferably adjoining the area where buyers, visitors and proprietors of small units can be received.
9. Personnel who work only for the exchange; they should have no other duties.
10. The following staff, who should be sufficient to handle a 'population' of 2,000 to 3,000 units:

1 deputy director

1 SIPO

1 driver

1 assistant director

1 telex-trained stenographer

1 peon

11. One vehicle reserved for its exclusive use.

The following additional factors should also be taken into consideration.

1. A programme of continuous visiting of all units in its area, both large and small must be the norm.
2. In view of the ultimate establishment of an international exchange, the use of the Kardex-mounted, preprinted item cards should be discouraged.
3. The transfer of any exchange officer should not be permitted until his replacement is competent to take over his duties.
4. All directors of institutes where exchanges now operate, or where they are soon to be set-up, should be advised of the basic idea of the exchange, and of its method of working. They should also be made aware of the minimum but essential facilities (staff, equipment, accommodation) necessary to its successful operation.
5. A week's crash-course should be held at a convenient central point e.g. SIET, before the expert's departure (5 November 1978), to bring people from the various exchanges up to the required standard.
6. The list of concepts must be updated. The changes, based on operating experience, must now cater additionally for products and for the widening scope of the exchange's inquiries, which were formerly mainly in the mechanical engineering field.

The report concludes that if these remedial measures are taken soon, it will be possible in a year perhaps for these exchanges to be incorporated into a viable national network controlled by the proposed International Subcontract Exchange in Delhi.

Annex IV

MEMBERSHIP OF THE BOARD OF CONTROL FOR A STATE SUBCONTRACT EXCHANGE

The board must represent the views not only of the Central and State Governments but also of the industrial and commercial interests of the State, especially in small-scale industries. The product mix of industries will vary from State to State, and the membership of the board must, of course, reflect this, and should be as follows:

Ministry of Industries (State)	Director of Industries (Chairman)
Ministry of Industry and Civil Supplies (Central Government) Small-scale Industries	Development Commissioner (Vice-Chairman)
Small-scale Industries Development Corporation (State), or equivalent body	Managing director
Small-scale Industries Export Corporation (State), if relevant	Managing director
Trade Centre	Chief executive
Designated representatives from bodies representing various specialized interests in the State (e.g. electronics, machine tools, hosiery, handicrafts)	

It is recommended that the board should be composed of about 12 members.

Annex V

STAFF, EQUIPMENT AND ACCOMMODATION FOR A PROPOSED STATE SUBCONTRACT EXCHANGE

Staff

Technical director

A least 10 years' experience in industry or commerce, with a university degree in science, engineering or business studies. No one man can hope to be a specialist in all the fields that a subcontract exchange may cover, hence, the director need not be a technical man provided he is adequately supported by specialist staff.

He must be able to meet industrialists and government officials at all levels; be a good publicist and able to advertise the exchange's functions to the industrial and commercial interests in the State; and be a good administrator.

Field officers

Although the technical director must not become desk-bound and should visit units from time to time, the bulk of the industrial visiting should be carried out by the field officers. Initially, one officer will have to cover many fields, or to double-up (i.e. an electrical specialist may have to cover electronics as well).

Field officers must have a university degree in engineering, technology, or science. Intelligence and the ability to absorb new ideas rapidly are more important than mere factual knowledge. They also must be at home with the management of large companies, and yet able to deal sympathetically with the smallest unit registered with them. They must enjoy working in an industrial environment and in meeting people and solving their problems. As the exchange develops, the collective experience of the field officers engaged should extend over all the important sectors in the State.

One officer can, working full-time, deal with more than 2,000 units a year on a purely visiting basis, not involving any time spent on consultancy or the solution of more than simple problems. Hence, an exchange with 4,000 units could be dealt with by a staff of three (including the technical director). If we extend the coverage to 8,000 units, another two field officers will be required.

Although simple consultancy can be carried out by these officers, more specialized work will have to be handled by additional specialists taken onto the exchange's staff. It is here that some accommodation may be reached with the State Small Industries Development Corporation, which already has this type of consultant on its staff. For more specialized work, consultants will have to be hired on a per diem basis.

It is important that all officers, including the technical director, are rotated from office to field, and vice versa. The technical director must not live in the office and lose contact with industry, nor must the field personnel lose the ability to operate in the office, analysing and recording data, and processing inquiries. It may be politic for the technical director to accompany the field officer when visiting large companies. The expert was told at one exchange that large companies "would not entertain dealing with anyone below director level".

Secretary

The secretary must be able to take dictation (120 wpm) and type (65 wpm), and have a good grasp of business and technical language. He/she must be able to operate the telex machine.

During the temporary absence of the exchange duty officer, the secretary should be able to answer simple technical queries over the telephone, and also be able to receive visitors at all levels.

Equipment

The equipment and supplies required are listed in the itemized budget in annex VI.

Accommodation

The space requirements of an exchange are modest. There are two rooms, one housing the exchange proper (a prohibited area) and the other a reception area, where visiting industrialists, subcontractors, buyers and others are interviewed. If the exchange is located in the Trade Centre, as suggested earlier, it may be possible to have a common reception area for both the Trade Centre and the exchange.

For the operations room, an area of 5 m x 5 m is adequate as it has to house only two to three lateral filing-cabinets, a telex machine and table, a desk for the stenographer and one for the engineer, with two chairs.

The reception area (about 7 m x 7 m) should have a few easy chairs and low tables and be an area where informal discussions can take place without undue interruption.

Annex VI

BUDGET FOR A STATE SUBCONTRACT EXCHANGE

	<u>Rs</u>
<u>Fixed expenditure</u>	
1 stenographer's desk	500
1 engineer's desk	1 400
1 telex table	300
2 low tables at Rs 250 each	500
2 adjustable swivel chairs at Rs 400 each	800
4 easy chairs Rs 250 each	1 000
1 electric typewriter with 18 inch carriage, (imported)	10 000
Telex installation charge	150
Telephone installation charge	100
Telex security deposit	5 000
Telephone security deposit	1 000
1 photocopier, 20 cm x 40 cm, dry, Xerox-type (plain-paper copier), capable of producing multiple copies in one operation and of copying from both sides of the same original, from books, catalogues etc. (imported)	20 000
1 lateral-filing cabinet (steel) complete with 5 rails and 500 linked pockets	1 500
500 foolscap files for above	1 000
1 steel cupboard complete with shelves	900
1 Visiscan mark V punch (1/12 inch diameter cutter) (Information Systems Ltd., High Wycombe, United Kingdom)	1 000 f.o.b.
1 Autospot hand-punch (1/12 inch diameter cutter) (Information Systems Ltd., High Wycombe, United Kingdom)	200 f.o.b.
1 Roneo 'Multicard' storage unit, type M30/11/12 with 100 separators (or equivalent design)	2 500 f.o.b.
1 Roneo stripdex HD50/S quick access system (50 x 8 inch panels) with 5,000 strips (available in India)	500
1 wooden light-box (locally made)	100
1 inquiry rack to take inquiry files, 9-mm dowels at 38-mm pitch (locally made)	100
Various office sundries: filing baskets, stapler desk lamps etc.	2 000
75 m ² of tufted, rubber-backed (cotton) carpet at Rs 75/m ²	5 625

	<u>Rs</u>
400 nominal A4 size, item cards, with mitred top 1.h. edge, and bottom notched to suit storage unit, yellow, not printed	
40 concept cards, (similar size and shape) printed with 4 000 x 1/8 inch co-ordinate squares, grey	2 500
40 concept cards (as above), blue (All item and concept cards printed through SISI Hyderabad)	
2 000 inquiry forms, yellow	
1 000 inquiry forms, pink	
10 000 inquiry forms, blue	
1 000 check sheets, pink	
	2 000
2 Ambassador cars	<u>86 000</u>
	Fixed total
	146 675

Recurring expenditure

Expenses

Calculated (per annum)

1 telex machine rental (c/w perforator, transmitter, power pack, switching unit)	3 856
1 telex line rental (within 5 km radius of the exchange)	300
1 telephone instrument/line rental	600
Telephone calls (estimated)	5 000
Telex calls (estimated)	1 000
Consumable stationery: telex rolls, photocopier paper etc.	1 000
2 cars, depreciation (10-year basis) Rs 4,300 each	3 600
2 cars, maintenance and servicing, tax Rs 2,500 each	5 000
Petrol, oil and minor expenses 500 days at Rs 60/day	30 000
Office rent: 75 m ² at Rs 100/m ²	<u>7 500</u>
Total	62 856

Salaries (per month)

1 technical director, at Rs 3,000 + car + housing assistance, and usual perquisites (Rs 4,000)	48 000
2 field officers at Rs 2,250 each	54 000
1 secretary/receptionist at Rs 1,500	18 000
2 drivers at Rs 500 each	12 000
1 peon at Rs 250	3 000
Travelling/subsistence allowance for 2 officers at Rs 100/day for 250 days (each) when visiting distant units. Assumed half local, and half field trips	<u>5 000</u>
Total	140 000

Notes

1. The budget refers to the setting up of a state-based exchange, with no facilities, to cater for 4,000 units, with two officers visiting on a full-time basis but with only simple consultancy carried out. Since the running-cost is approximately Rs 200,000 lakhs, the exchange will need to charge an average of Rs 50 to each unit to be self-financing.
2. The salaries quoted above, are well above those available in Government service. The Exchange requires a small, high-calibre staff, and is prepared to pay to get the right people. It is a commercial organization, a Public Limited Company, paying 'open-market' rates. Economizing on staff is one certain way to ensure the exchange's end.
3. Any extra functions such as the forming of consortia for small units, setting-up as an export house, will, of course, entail additional expense.

Total first year expenditure is Rs 348,000

Estimated running costs Rs 203,000

Annex VII

SUGGESTED FORM OF SERVICE AGREEMENT FOR THE OPERATION OF A STATE
SUBCONTRACT EXCHANGE*

1. The exchange operates this service as a centre for locating those companies capable of carrying out a particular task or supplying a particular product at a particular time. At no time will the exchange undertake to be responsible for the manufacture of a specific item or the performance of a specific service.

2. The exchange agrees:

(a) To compile a list (item card) based on the information supplied by the company of all its machines, equipment, processes and skills which it wishes to make available to other companies;

(b) To keep this list up-to-date and to amend it at any time on receipt of written instructions from the company.

The exchange will not willfully disclose the details of the item card information to any other company, government or semi-government body or organization. The information will be disclosed only to a buyer, against his specific inquiry.

3. When asked a question by the company, the exchange shall endeavour to find companies technically capable of carrying out the specified work or service; communicate with those companies to find those able and willing to do the work or give the service required; then communicate the names to the inquiring company that should itself approach the companies of its choice. If expressly asked by the inquiring company, its identity will not be disclosed to any of the companies able to do the work.

4. Information received by the company under the provisions of this agreement is to be used solely for the purpose of the work or services to be performed for or by the company and shall not be, for any other purpose, disclosed to any person or persons unless the written consent of the exchange is first obtained.

5. Under no circumstances does the exchange warrant or guarantee the quality or suitability for any particular purpose of any work or service performed by any companies and under no circumstances will the exchange be liable for loss, damage or expenses that may be incurred by the company as a result of information supplied to the company by the exchange, whether such information be supplied negligently or otherwise.

*Between exchange and all user companies in India.

6. At no time will the exchange prefer or recommend any one company rather than any other company nor will it report to one company or third party on the activities of any other company.

7. The exchange offers the service as an information service. Although the exchange shall endeavour to the best of its ability to advise a company of inquiries suited to its capabilities and available capacity, this Agreement implies no contractual obligation on the part of the exchange to supply the said company with work.

8. The exchange shall have the right to refuse admission to membership or to renew a company's membership of the exchange.

9. The Agreement will be for a period of two years from the date of signature and thereafter yearly unless three months' notice is given by either party in writing, such notice to take effect on the expiry of two years or any anniversary thereafter.

10. Payment for the services set out above will be by means of an annual subscription as set out in the schedule below, and payable in advance.

For the purpose of calculating this sum 'the term number of employees' will be deemed to mean the total number of full-time employees of the company at the date of signature of renewal. No subscription or entrance fee will be refundable.

11. Inquiries will be dealt with between the hours of _____ and Monday to Saturday, with the exception of the statutory national and state holidays.

Note: This is not a legal document, but indicates the points that have to be covered in any such Agreement.

It stresses that the exchange is purely an information centre and undertakes no responsibility for manufacture, nor does it accept legal responsibility for faulty goods, or delays in delivery. This does not mean, of course, that an exchange is not interested in such matters, merely that the purely legal aspects of the exchange's work with its clients are being considered. The Agreement also makes the point that the exchange can never be an automatic work finding service. The client company, of whatever size, is paying for information not work.

The subscription rates will be decided by the exchange's board.

Annex VIII

COMPOSITION OF THE BOARD OF DIRECTORS FOR THE PROPOSED INTERNATIONAL
SUBCONTRACT EXCHANGE IN NEW DELHI

Executive board

Ministry of Industry and Civil Supplies Small Scale Industries	Development commissioner (Chairman)
Ministry of Industry and Civil Supplies	Joint secretary (designated) (Deputy chairman)
Ministry of Commerce	Joint secretary (designated)
Federation of Indian Export Organizations	Designated representatives
Export Inspection Council	Designated representative
Seven representatives elected annually by the advisory board representing all export promotion councils and other organizations judged to be necessary on this board	

Although each of the seven representatives comes initially to represent his organization alone, he will, when sitting on the executive board be acting on resolutions passed by a two-third majority of the advisory board, which represents all sectors. Hence, although the promotion of sectoral self-interest is not excluded, it may by this means be minimized.

By the adoption of the two-tier board it is hoped to reconcile the opposing requirements of universal representation and effective decision-making.

Annex IX

STAFF, EQUIPMENT AND ACCOMMODATION FOR THE PROPOSED INTERNATIONAL
SUBCONTRACT EXCHANGE

Staff

While for the state-based exchanges, the staff must have an industrial bias, the officers in the International Exchange will be drawn from the sales or purchasing side of industry and commerce, as their main function will be to meet on equal terms professional buyers from large foreign companies.

Technical director

As in the case of the state exchange, the technical director must be a person of 10 years' varied experience in industry and with graduate qualifications in engineering, science, or business studies, preferably with recent experience of export marketing or selling. He must be able to meet buyers from all the principal markets, and to put the case forcibly for the suitability of Indian products for their needs.

He must be able to meet high-level trade delegations from overseas, and to take part in similar ones abroad. He will be required to attend, from time to time, specialist exhibitions abroad.

He must also be able to work smoothly with government departments that overlap the work of the International Subcontract Exchange.

Officers

Officers must be of graduate level, in the discipline enumerated above; they will be accepted with five years experience. They will spend their time interviewing visiting buyers, and seeing that their programmes of visits both in the immediate Delhi area and to other state exchanges, are properly arranged. They will be required to analyse incoming inquiries, to ensure that they are correctly transmitted to the appropriate state exchanges, and to make sure that the quotations etc. are correctly transmitted back to the foreign buyer.

They also, in their turn, will be required to be on the stands of important Indian exhibitions abroad.

It may be useful for the International Exchange and all the state exchange staff to occasionally visit one other, to appreciate problems, from the other's point of view.

Secretary (receptionist, telex operator)

The secretary should be able to take dictation (120 wpm) and to type (65 wpm) and have a good grasp of business and technical language. He/she must be able to operate a telex machine; be of pleasing appearance and personality, and be able to meet with confidence buyers from foreign companies.

During the early stages of the International Exchange, one person will have to handle the jobs of both secretary and receptionist. At a later stage, two people will be required, but each should be capable of doing the other's job efficiently.

Equipment

The equipment and supplies required are listed in the itemized budget in annex X.

Accommodation

As for the state exchange, a small operation room will house the telex machine etc., and will be a prohibited area to non-operating staff. (5 m x 5 m).

The reception area, in this case, will be larger, as receiving people is an important function of the Exchange. In addition to the general reception area, it may be advantageous to have small private rooms where confidential business discussions can take place. The main area can be about 10 m x 10 m with the small rooms about 3 m x 3 m equipped with chairs and a table and an internal telephone.

Notes:

1. This represents the opening situation of the Exchange, and should be adjusted as the Exchange develops. Later, a second telex machine will be added, so that one can remain permanently on the overseas circuit, while the first machine can be used for calls within India.
2. As business develops, the number of officers will have to be increased, as in the state exchanges, so that complete coverage of the important export sectors is assured.

Annex X

BUDGET FOR THE PROPOSED INTERNATIONAL SUBCONTRACT EXCHANGE

	<u>Rs</u>
<u>Fixed expenditure</u>	
1 telex machine installation charge	150
1 telephone instrument installation charge	100
1 stenographers desk	500
1 telex table	300
1 engineer's desk	1 400
2 adjustable swivel chairs at Rs 400 each	800
6 easy chairs at Rs 250 each	1 500
3 low tables at Rs 250 each	750
6 chairs (office) at Rs 200 each	1 200
2 tables (6' x 4') at Rs 500 each	1 000
1 lateral-filing cabinet (steel), with 5 rails and 500 linked pockets	1 500
500 foolscap files (for above)	1 000
1 steel cupboard with shelves	900
1 photocopier, 20 cm x 40 cm, dry, Xerox-type ('plain-paper' copier), capable of producing multiple copies in one operation and of copying from both sides of the same original and from books, catalogues etc.	20 000
Telex and telephone security deposits	6 000
1 electric typewriter, 18 inch carriage	10 000
Inquiry rack, folders, forms and check sheets as in annex VI	2 100
Various office sundries (desk lamps, filing baskets, etc.)	2 000
100 m ² tufted, rubber-backed carpet (cotton) at Rs 75/m ²	7 500
1 Ambassador car	<u>43 000</u>
Total	101 700

Recurring expenditure

Expenses (per annum)

1 telex machine rental (c/w perforator, transmitter, power-pack and switching-unit)	3 856
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	<u>Rs</u>
1 telex line rental (within 5 km radius of exchange)	300
1 office rent 100 m ² at Rs 100/m ²	10 000
1 car: depreciation (10-year basis)	4 300
1 car: maintenance and servicing	2 500
Petrol, oil and minor running expenses 100 days at Rs 60/day	6 000
Consumable stationery: (telex rolls, inquiry forms, photocopier paper etc.)	1 000
Estimated telephone calls	2 000
Estimated telex calls	4 000
Telephone instrument/line rental	<u>600</u>
	34 556

Salaries (per month)

1 technical director at Rs 4,000 plus car plus housing assistance, and usual perquisites (= Rs 5,000)	60 000
1 officer at Rs 2 500	30 000
1 secretary/receptionist at Rs 1,750	21 000
1 driver at Rs 600	7 200
1 peon at Rs 300	<u>3 000</u>
Total	121 200

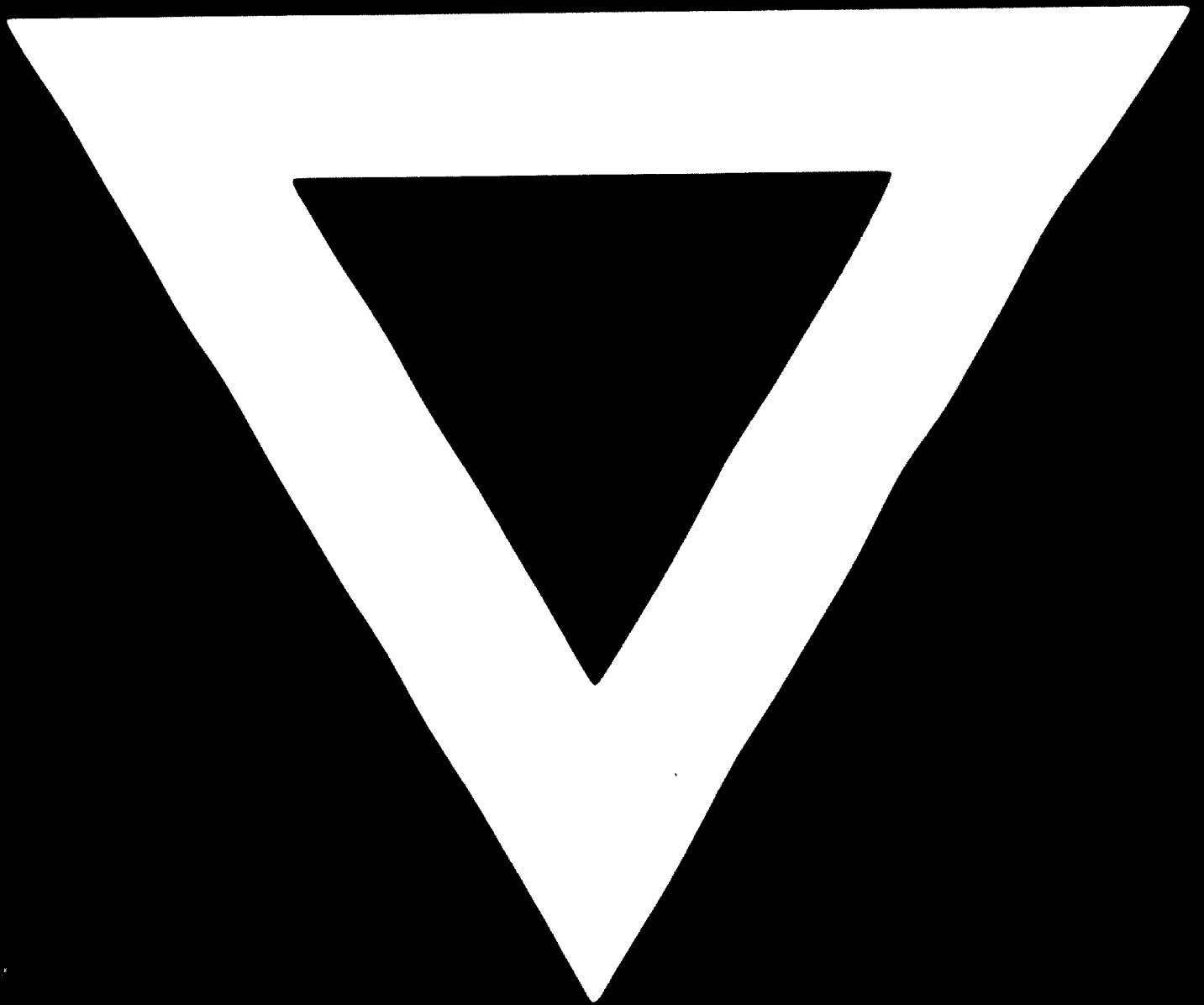
Note:

1. This represents the starting-up cost of the International Exchange, with skeleton staff. A large travelling cost is not envisaged in the salary component for the International Exchange as most of the travelling will be within the vicinity of Delhi. Also, there is no permanent visiting commitment, as in the case of an officer at a state subcontract exchange.

2. The salaries quoted above are well above those available in Government service. The Exchange requires a small, high-calibre staff, and is prepared to pay to get the right people. It is a commercial organization, a public limited company, paying open-market rates; economizing on staff is one certain way to seal the Exchange's end.

3. As the International Exchange grows, it will have to engage more officers with experience in diverse sectors so as to be able to handle any inquiry that may be sent to the Exchange.

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