Opinion

MONDAY, SEPTEMBER 30, 2019

BETTING ON BREXIT

Prime Minister of UK, Boris Johnson

It's time to get Brexit done and get on with delivering on Britain's priorities: safer streets, better hospitals and improved schools

RationalExpectations

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Change the law to set PSUs free

Parliament or Supreme Court must remove 'instrumentality of state' clause for PSUs that function in competitive markets

EVEN IF THE government was to embark on a massive privatisation drive—as opposed to today's PSU-buying-another-PSU—it is unlikely that more than a handful will get sold. Apart from the fact that just 10-12 PSUs were sold at even the height of the privatisation drive during the Vajpayee years, it is not certain there are that many buyers, especially among India's mostly cash-strapped industrialists.

And, even where there is a buyer, the unacceptably large, and heavily unionised workforce in these PSUs will probably be a big deterrent, especially where there are other alternatives available. If there are, by way of example, few takers for the more successful Jet Airways, which had a lot less debt, what are the chances there will be even that many for Air India, given the size of its workforce? And who would want to buy an MTNL or a BSNL when, due to their massive workforces and shrinking revenues, their salary bills—relative to their turnover—are 10-12 times those of the private sector?

With the caveat that the government is unlikely to be able to offload too many PSUs—there are around 340 central PSUs, and probably two to three times as many state-government PSUs—there can be little doubt the government needs to spend even more effort to fix their performance. A look at the market value of PSUs makes this very clear. Even while the government refuses to privatise, PSUs in areas like telecom, banking or steel—essentially, in all areas where they are not a monopoly—are losing market share. And, while doing so, they are also losing value; since Narendra Modi assumed office in May 2014, the share of PSUs in the country's overall market-capitalisation has fallen from 22.5% to 11.6% since, while overall BSE market capitalisation rose 61%, that of PSUs fell 17%. This means a notional loss in the value of PSUs of ₹15 lakh crore in the last 5+ years! If PSUs are losing their market share anyway, every day of delay in selling them off, or fixing their performance, means they are losing value.

Even more unfortunate, in most sectors in which PSUs have a monopoly, such as coal mining, or dominate, like oil, their performance is so poor that the country has to make huge imports to meet consumption needs. In which case, it wouldn't be an exaggeration to say that privatisation of PSUs will, over the medium term, lead to a lower import bill. Indeed, in a situation where imports are allowed freely, it is unlikely that privatising even a monopoly PSU will lead to a private sector monopoly; in fact, if privatisation leads to more production, as happened when the 'monopoly' HZL was privatised, the country benefits from this transaction.

> If Air India loses ₹5,000 cr a year—they rose 38% to ₹7,365 cr in FY19—the discounted value of 5-years' losses is ₹20,800 cr; paying a firm to take over AI may be a better idea

While most advocacy of privatisation, both within and outside the government, sees this as a revenue-generating exercise, this is completely the wrong way to go about it. The obsession with revenue-maximisation, it is fair to say, in fact, is what led to the destruction of the once-robust telecom sector. Obviously, the government can't have a one-size-fits-all approach, but an example or two should make this clear. If Air India's losses are ₹5,000 cr a year—they actually rose 38% to ₹7,365 cr in FY19, just a year before Jet Airways shut down—this means a loss of ₹25,000 crore over 5 years; if you discount that at, say, 10%, that's a net present value of ₹20,800 crore. In such circumstances, giving a bidder money to take over Air India is the optimal solution; in other words, the privatisation program must build in the possibility of negative bids. If, however, a profitable PSU like BPCL is to be sold, the government can expect a good value since it will take a long time for any private sector competitor to build up such a franchise of petrol pumps in the heart of most cities.

But, since the vast majority of PSUs can't be sold, the real productivity boost for the economy will come from fixing these PSUs. The first rule, or one of the first, has to be that the government cannot interfere in their running; setting up a Banks Board Bureau has ensured little government role in appointing senior officials in PSU banks, for instance. Another has to be to allow them the freedom to retrench staffers, and hire the best; nowhere does this apply more than in the case of banks, with most PSU banks being massively over-staffed, and with people who do not necessarily have the skills needed for modern banking. Even more important, is the issue of what is called *L-1-itis*, or the rule that requires PSUs to float tenders for almost anything. This ensures PSUs can never negotiate terms with suppliers, or potential partners since the losers can, legally, challenge any contract as being unfair—under the Constitution, PSUs are seen as an instrument of the state, and so, have to offer equal access/opportunity to everyone. ONGC's attempt to tie up with PSUs in Brazil and Norway, for deep sea drilling expertise, were scuttled on precisely these grounds.

The government, then, needs to either get Parliament to amend Article 12 of the Constitution, or approach the Supreme Court on this, to say that PSUs are not an 'instrumentality of state' under certain circumstances. The SC's rulings on this are not consistent. In *PB Ghayalod vs Maruti Udyog*, in 1991, it ruled that since there was a substantial foreign ownership, and the partner had various rights, the company was not an arm of the state. In *Mysore Paper Mills vs Mysore Paper Mills Officers' Association*, in 2002, it ruled that the PSU was to be considered an arm of the state. But, in *Pradeep Biswas vs Indian Institute of Chemical Biology*, in 2002, the SC said that for an entity to be an instrumentality of state 'it should have been entrusted with such functions as are governmental...by being of public importance or being fundamental to the life of people and hence governmental'. The simple rule the government must push for is that wherever the PSU is not a monopoly, and there are private competitors, the PSU will not be considered an 'instrumentality of state' since it is not fulfilling a 'governmental' role, as it were. If this is not fixed, no matter how much freedom the government gives PSUs, they will never really be free to operate.

PolicyCURE

Govt does well to talk of removing drugs using locally-manufactured API from price control

THE GOVERNMENT IS mulling over excluding medicines made from locally manufactured active pharmaceutical ingredient (API)—the key raw material for the production of a drug—from price control. The move, according to a Mint report, is aimed at pushing manufacture of APIs in India to reduce import dependence. The move, if implemented and to the desired effect, would be a boost for Indian pharma. In FY19, Indian pharma companies imported bulk drugs and intermediates worth $2.4 million from China. The irony is the government had all along known how price control was affecting domestic manufacture. Indeed, Indian manufacturers had gotten more and more export focused, with their offerings in India accounting for an increasingly smaller portion of their revenues over the years.

In the Draft Pharamaceuticals Policy 2017, the government had noted that PSUs were doing a good job of producing raw materials/intermediates in the 1950s-60s, and accepted that import dependence had grown because of its price controls—"the Drug Price (Display & Control) Order 1966 put 18 APIs (raw materials) under price control... from 1996... imported APIs and Intermediates started becoming hugely lucrative as a price cap on drugs forced the manufacturers... to obtain the cheapest raw material with the basic minimum efficacy/quality". And yet, it had called for price controls to stay citing high out-of-pocket costs for drugs. The government, in the draft policy, also rued the fact that pharma companies were more focused on generic formulations than R&D. It should have long realised that, unless price controls go summarily and companies' profits grow, investment in R&D will remain thin. If the government is serious about Make in India for APIs and boosting R&D spending by pharmaceutical companies, it must shun price control as a policy measure. To keep medicines affordable for the masses, it must subsidise through bulk purchases for its Jan Aushadhi and other outlets.

FROM PLATE TO PLOUGH

GOVT NEEDS TO OVERHAUL THE APMC, SWITCH TO COLD STORAGE, AND PROMOTE USAGE OF DEHYDRATED ONIONS TO SUSTAINABLY TACKLE SEASONAL SPIKE IN PRICES

Market reforms will wipe away onion tears

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Views are personal

ONIONS ARE ON the boil once again! With onion retail prices in Delhi crossing ₹40/kg in mid-September, and being even higher in Mumbai, the government swung into action. It imposed minimum export price (MEP) of $850/tonne, followed by a central team of bureaucrats visiting Lasalgaon, India's largest wholesale market of onions, to assess the situation. It won't be a surprise if they blame onion traders for speculation and recommend stocking limits. While the heightened concern of the government is justified, we disagree with the policy instruments being used. Here is our take on it.

The onion price-rise in September is not new. Prices rise in September almost every year due to seasonality, but every alternate year, there is an accelerated spike (see graphic) due to 'some other factors'. This shakes any political party in power. The standard response is imposition of MEP, stocking limits on traders, and sometimes, even income tax raids on onion traders! These crude measures don't give sustainable solutions.

While onion price spikes make the government hyperactive, how many people remember that even between January and May 2019, when much of the late kharif and rabi onions were sold, wholesale prices in Lasalgaon hovered between ₹4-10/kg, and on some days, even touched ₹2/kg. This is against a cost of ₹9-10/kg in Maharashtra, as estimated by the National Horticulture Research and Development Foundation (NHRDF). This means farmers incurred massive losses in 2019 from sales of onions, running into hundreds of crores of rupees. If the government was as hyperactive then to save the onion farmers from the price crash as it is to save the consumers today, perhaps these spikes would have been avoided. But, there is an inherent 'consumer bias' in our agri-price policies. Even more so, when MMTC imports onions and 'dumps' them at below their import parity prices to 'tame' domestic prices. This is likely to happen between late October and November, when the kharif crop will start arriving in the market and prices would nose-dive in any case.

It may be noted that both these policy instruments—restricting exports through high MEP, and dumping imported onions below cost—are not only anti-farmer but also anti-agri-exports, and go against the PM's vision of doubling farmers' incomes. This must be avoided at all costs.

The accompanying graphic shows that whenever high MEP, such as $850/tonne, which translates to roughly ₹60/kg, is imposed, exports drop sharply. The export parity price from October 2018 till date has remained below $300/tonne. So, this MEP of $850/tonne will deprive farmers of whatever little benefits they were getting from onion exports. India has emerged as the largest exporter of onions in the world, having exported about 2.4 million tonnes in 2018-19 out of a production of 23.5 million tonnes. Remember that it takes years to build export markets, but with such abrupt export restrictions, India becomes an unreliable exporter, which adversely hits its unit value of exports. This is a much bigger damage compared to short-term gains the government is eyeing.

So, what could be best possible solution? First, one needs to remember that price stabilisation does not come free. Nafed, which is entrusted with price stabilisation, should procure at least 2-3 lakh tonnes of onion at the rabi harvest time (April-May), ensuring that farmers get at least ₹12-15/kg, when they were previously getting ₹4-8/kg. This will save onion farmers from a price-crash, and give them reasonable profits, incentivising production, and exports. But, these stored onions will incur storage costs. Storage at the farm level suffers losses of about 20-25%, which can be brought down to 5-10% in modern cold storages. But, cold stores cost about ₹1.5/kg/month. These stored onions can, then, be released between August and first-half of October, before the kharif harvest starts arriving. If NAFED incurs, say, five months' storage cost at about ₹7.5/kg, and if the procurement is at ₹12-15/kg, they can still offload at, say, ₹20-23/kg, and retail price in September-October can be tamed below ₹30/kg.

Second, our analysis of onion value chains for three years' average, ending 2018-19, with season-wise weighted average of wholesale prices from major *mandis* in Maharashtra, MP, Gujarat, and Rajasthan catering to Delhi's onion demand, reveals that onion farmers get a mere 29% share of the consumer's rupee. The rest constitutes costs and margins of middlemen, with retailers apportioning the highest share. With the majority of onions traded through Agriculture Produce Market Committee (APMC) markets, the auctioning procedure is controlled by powerful traders and commission agents, with much less bargaining power for farmers. Layers of *mandi* fees, and commissions escalate prices further, without much value addition, or benefit to farmers. Our field visits to major *mandis* (Azadpur, Lasalgaon, Pimpalgaon, Mahuva) revealed that actual commissions are way above the prescribed charges. Officially levied on buyers, ultimately farmers bear their burden. What all this indicates is that major overhauling of APMC reforms is overdue.

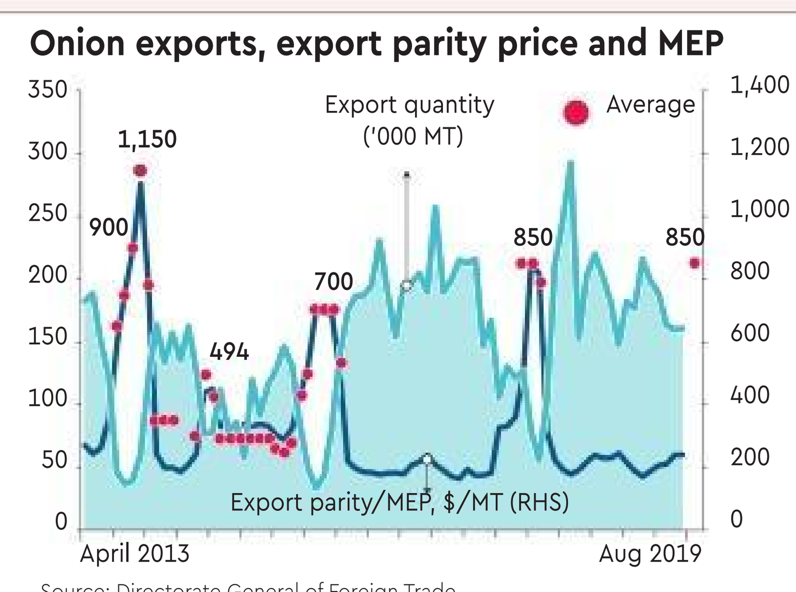
Third, the Ministry of Food Processing Industries should extensively promote the use of dehydrated onions (flakes, powder, granules) among domestic households, and institutions like the armed forces, hospitals, restaurants, and schools (mid-day meals). This will take the pressure off fresh onions during lean season. Currently, India exports 85% of its dehydrated onions, and is the largest exporter of these products in the world. Dehydrated products are more durable, much cheaper to store; they can help check the spikes in onion prices. This will reduce wastage, help farmers get a fair price, and allow consumers to switch to dehydrated onions in the lean season at affordable prices.

If the government could do this, it would know its onion, especially on growing farmers income.

Onion wholesale and retail price and WPI

Source: Agmarknet, Department of Consumer Affairs and Office of Economic Adviser, DPIIT

Onion exports, export parity price and MEP



Source: Directorate General of Foreign Trade

A policy for growth

Corporate tax cuts fulfill the BJP's promise, but to address the slowdown in growth rate, the breakdown of the non-banking credit market must be focused on

MEGHNAD DESAI
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Views are personal

I AM NOT a friend of tax cuts. If you must be a Keynesian in your fiscal policy, it would be better to increase public spending to put purchasing power in the hands of a large part of the population, than to give a tax cut to businesses, which may or may not increase investment.

The deep cut in corporation tax does deliver on what Jaitley had promised. But, the record of corporation tax cuts as a stimulating device is mixed. Yes, there is a surge in equity prices for a short time. But, a stock market boom does not create wealth in a permanent way. Nor is wealth destroyed when stock prices fall. It is just a redistribution among the stock-owners.

Corporation tax cuts do not boost investment in a sustained fashion. Businessmen advocate them because it makes them richer. Stock markets exchange existing stock of equity. A very small percentage of new investment is financed by IPOs, or new equity floatation by existing corporations. This is true, universally, of all stock markets.

There are reasons why we are experiencing the slowdown in growth rate. The credit markets have become dysfunctional. The nationalisation of the banking system, fifty years ago, worsened the cost of borrowing for all but a few favoured cronies. Attempts by Modi 1.0 to reform PSU banks were overdue, but they seem to have stalled. At the same time, the non-banking credit market had a breakdown with the collapse of IL&FS.

There needs to be a serious policy intervention in this respect. The IB code was welcome, but once again, debtors have found ways of delaying repayments. The principal reason is the fractured nature of the Judiciary. At the apex level, the Judiciary is efficient, though somewhat overstretched. But, nationally, it is understaffed. Its procedures encourage delays. There seem to be no incentives to speed up proceedings in courts. Someone needs to ask whether the reward system for lawyers can be reformed. There is a shamefully large backlog of undecided cases. The cost of credit is high, largely due to the cost of recovery of debts with a dysfunctional judicial system. We need to examine the economic costs of the judicial system. Its ills will not be cured by asking active or retired judges to examine the issue. We need economists to look at this economic problem as a matter of urgency. It is in such matters that the answer to the issue of growth slowdown is to be sought.

Fears have been expressed that the FM's tax cuts will bust the deficit target. This deserves a short-run, and a long-run answer. In the short run, the government must re-examine whether its revenue projections for GST make sense given the many effective cuts in the rates paid either due to consolidation of categories, which is an effective tax rate cut as well as direct cuts in tax rates. Informal observations reveal that sellers invite the buyers to collude with them in evading tax by not insisting on a receipt. The *jugaad* economy is back in town.

But, the more important issue is to question the overwhelming importance given to deficit reduction. There is a global debate on fiscal constraint. During the years of Monetarism's dominance, and prevalence of high inflation rates, the issue of fiscal discipline became urgent. But, across the world, though government debts are rising, bond yields are collapsing. There is a new fashion called Modern Monetary Theory, which takes the same view as early Keynesians. This view says that as the debts are denominated in the national currency, the government has the power to print as much currency as it wishes. The aim of the government should be full employment, and not balancing budgets.

The high inflation of the 1970's and 1980's brought the debt-income ratio in fashion as a target, and the idea that governments are driven by short-term political gains rather than prudence. Hence, central banks had to be independent guardians of the currency, and a medium-run macroeconomic strategy was essential, which bore down on deficits. That world has, happily, gone. Though fiscal orthodoxy is still prevalent in financial circles, the inflation threat having gone, governments may be free to spend as they please. The USA is an interesting example of this dual attitude. Politicians swear by fiscal probity, and warn against saddling future generations with debt. But, year after year, the US government debt rises, budgets have been balanced in a maximum of ten years in the last seventy-four since 1945, and most of those came before 1960. The USA has prospered in the meantime.

India needs a debate on this question. Inflation needs to be controlled, but the issue is whether inflation is a monetary phenomenon or a supply-side problem, mainly in food items. Prudently used, deficits may be growth-enhancing. It would be a major change in economic policy, worth examining.

LETTERS TO THE EDITOR

Trump's impeachment enquiry

A 'credible' complaint by a whistleblower has prompted the initiation of impeachment enquiry against the US President Donald Trump, who not only pressed his Ukrainian counterpart, Volodymyr Zelensky, to undermine Democratic presidential frontrunner Joe Biden by investigating his son's business dealings but also held back aid to Ukraine, an ally of the US, for greater leverage. Donald Trump is now under the scanner for soliciting the 'interference' of a foreign leader to boost his chances of re-election. Trump 'betrayed his oath of office', and 'abused his position as President' for his 'personal gain'. The White House has now accused him of trying 'to hide the transcript' of the phone-call made by him. The inability to deny the redaction of the Ukraine call data has made the charge of a 'cover-up' stick. Trump's 'whistle-blower's source close to a spy' remark has provoked warnings against witness tampering and intimidation. Trump has not been wronged for him to credibly play the victim card against the impeachment enquiry, which has become indispensable in light of unarguable proof. Cross-party leaders have described Trump's conduct as 'not okay' and 'troubling in the extreme'. The American voters are unlikely to take kindly to the enlistment of a foreign leader for 'personal political benefit' and the attempt to bury evidence of wrong-doing. It is a tribute to the world's oldest democracy's democracy that it has in place 'checks and balances' that work and hold the holders of high offices to account.

— G David Milton, Maruthancode

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Regd. No: DL -21048/03-05. R.N.I. No.26750/74. Printed and Published by R.C. Malhotra on behalf of The Indian Express (P) Limited and printed at The Indian Express (P) Limited Press, A-8, Sector-7, Noida - 201301 and published at The Indian Express (P) Limited, Mezzanine Floor, Express Building, 9 & 10, Bahadur Shah Zafar Marg, New Delhi-110002. Phone: 0120-6651500, Fax: 0120-4367933. (Cover price: Patna: Mon-Fri ₹6, Sat ₹9, Sun ₹11; Raipur: Mon-Fri ₹7, Sat ₹10, Sun ₹10)
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ILLUSTRATION: SHYAM KUMAR PRASAD

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INDO-US TRADE NEGOTIATIONS

Moving forward on medical devices

Friction on trade matters would begin to dissipate if due consideration is paid to the reasonable need of both sides. An Indo-US 'limited' trade package is welcome so long as it is fair and even-handed

Indian medical device imports

FY18-19 (₹ crore) (Top 5 countries)

	US	Germany	China	Singapore	Netherlands
Surgical instruments	1,134	527	399	165	195
IVD Reagents	1,204	433	154	297	150
Implants	586	235	53	258	323
Electronics equipment	3,919	3,191	2,749	2,264	1,366
Disposables	333	141	300	481	356
Consumables	956	823	402	637	136
Total	8,133	5,350	4,057	4,102	2,526

ON THE SIDELINES of the 74th session of the UN General Assembly in New York, a slew of meetings were scheduled purportedly to move forward the dialogue on trade. The Donald Trump administration appears to be breaking away the typical outcomes of trade negotiations yielded in the past: "broad, comprehensive agreements that would cover whole swathes of issues." President Trump is adopting a more transactional approach on striking trade deals. This gives him an opportunity to address different constituencies within the US, example pharmaceuticals, farmers, information technology and so on. There is some anticipation that this current and ongoing dialogue could lead to a limited Indo-US package on trade.

Trade-related tensions between India and the US peaked in May this year when the US withdrew the zero-duty benefits worth $5.6 billion, hitherto given to Indian exporters under the Generalized System of Preferences. India imposed retaliatory tariffs on 29 products imported from the US. The US, inter alia, argued that the price controls levied on medical devices in India discriminate against the import of high-technology products, and is forcing US producers to sell in India at a loss. The National Pharmaceutical Pricing Authority (NPPA) of India had irrefutable evidence of profiteering in medical devices by American suppliers and manufacturers, through gross abuse and huge overcharging. India had little option but to place price caps on cardiac stents and knee implants, to make these affordable and, therefore, more widely accessible across the country for those in need.

While taking on board the primary concerns of the US, India could point out that it is not unreasonable to address irrationally high trade margins that have led to profiteering and abuse. On its part, India should agree to introducing amendments in the DPCO (Drugs Price Control Orders), to allow for trade margin rationalisation with respect to notified devices. This will not curtail the progress of manufacturers in any way. Trade margins for medical devices could be capped to rational levels (as suggested by the NITI Aayog in 2018), and added to the selling price indicated by the domestic/overseas manufacturer at the first point of sale (i.e. at the import-landed price when they enter India, where GST becomes initially applicable). This would provide for sufficient flexibility to facilitate and enable differential pricing for innovative medical devices. Consumers/patient groups would feel reassured that rampant profiteering is being curbed. MRPs would be visibly more reasonable. Profits for traders and retailers would be rationalised. And there would emerge a level-playing field for domestic manufacturers vis-à-vis foreign manufacturers. The supply chain economics would remain viable, and more ethical marketing will prevail. If the US agrees, this would be a win-win situation for both sides.

However, these are negotiations, and India's standpoint is equally compelling.

One, the Indian medical devices market remains heavily dependent on imports. India imports close to 80% of the demand for medical devices, and of this the US has an estimated share of 30%. Within the Indian market, the US has already achieved a dominant supplier status. Statements about US corporates having limited access to this market may not be a reasonable grievance. On the contrary, the fact is that Indian manufacturers do not get reciprocal access to US markets on account of the non-trade barriers (NTB) imposed by the US administration. Would the US agree to meaningfully reduce these NTBs that continue to stymie our medical devices industry?

Meanwhile, within the government of India, there is a sharpened focus on medical devices as distinct from drugs, and very soon a new division dedicated exclusively to medical devices could become operational under the aegis of India's national regulatory authority, the Central Drugs Standard Control Organisation.

Two, during 2015, India's medical devices industry was opened up to 100% foreign direct investment (FDI) via the automatic route. The scope for investments, however, was restricted by the narrow definition of medical devices in the Drugs and Cosmetics Act, 1940. In 2018, India expanded the range of items defined as 'medical devices' in the FDI policy, and clarified that medical devices will no longer be defined by the Act. The domestic medical devices industry would benefit from the technology transfer as this opening up was intended to encourage 100% greenfield manufacturing units. On the ground, however, trading units and warehousing units have proliferated. There are some concerns here, and a course correction as part of the trade package would be in order. In contrast, FDI in the brownfield pharmaceuticals sector remains 'reserved' for approval, if it is over and above 74%.

Three, India is widely applauded for being the pharmacy of the world. Every third tablet sold globally originates from an Indian manufacturer. India's ability to supply affordable medical products (devices and medicines/drugs) is benefiting needy patients worldwide. Any trade package that compels India to withdraw these safeguards on public health, i.e. the price caps applied on the most frequently used medical devices like cardiac stents and knee caps to make these more accessible to the masses, will not be welcomed, because "any solution which is not affordable is no solution at all," said Dr Devi Prasad Shetty, chairman Narayana Health.

Four, since the US regulatory approval processes are challenging, stringent and very expensive, overall their market entry fees do not make it commercially viable for Indian manufacturers to export to the US, while the $15 billion Indian market is wide open for American companies. In India, import fees levied by the Drug Controller General (CDSCO) are very low in comparison. India should press for agreement on some parity in this matter by bringing the CDSCO import licence fees on a par with the fees encountered by Indian manufacturers.

Friction on trade matters would begin to dissipate if due consideration is paid to the reasonable need of both sides. An Indo-US 'limited' trade package is welcome so long as it is fair and even-handed.

The future of the office

Even if WeWork is in trouble the office is still being reinvented. It could lead to a two-tier system.

"FROM NINE TILL five, I have to spend my time at work," warbled Martha and the Muffins back in 1980. "My job is very boring, I'm an office clerk." Many of the hundreds of millions of people who trek into an office still feel as despondent at the prospect as Martha did. The office needs a revamp. But the crisis at WeWork, a trendy office-rental firm whose boss, Adam Neumann, stepped down this week after its attempt to float its shares turned into a debacle, shows that businesses are still struggling to come up with a new format.

The large office, like the factory, is an invention of the past two centuries. The factory arose because of powered machinery, which required workers to be gathered in one place. Big offices grew from the need to process lots of paperwork, and for managers to instruct clerks on what to do. But now the internet, personal computing and handheld devices mean that transactions can be dealt with on-screen and managers can instantly communicate with their workers, wherever they are. The need for staff to be in one place has been dramatically reduced.

A new model may take time to emerge—electric power was first harnessed in the 1880s but it was not until the 1920s that factories changed their layouts to make full use of it. The new model will have to balance three factors: the desire of many workers for a flexible schedule; the high cost for firms of maintaining office space; and the countervailing desire to gather skilled workers in one place, in the hope that this enhances collaboration.

People who work at home or in a Starbucks have no need for a stressful commute and can adjust their hours to suit their way of life. In turn, that flexibility lets companies cut down on space. Our analysis of 75 large listed services firms in America and Britain shows that annual rental costs per employee have dropped by 15% over the past 15 years, to $5,000. Many firms operate a hot-desking system where workers find a new seat every day. At the London offices of Deloitte, a consultancy, 12,500 people have access to the building but only 5,500 desks are available.

> Neumann's business plan is in tatters. But one of his insights is surely right: the office of the mid-21st century will be as different from today's as the high-tech factory is from the Victorian mill

But hot-desking can be alienating. Every night, workers must erase all trace of their existence, hiding away their possessions. When crammed into desks sited close together, workers wear headphones to shut out noisy neighbours. Studies suggests this leads to more emails and less face-to-face communication. So much for collaboration and camaraderie.

High-skilled workers can be repelled by these conditions. So the hot-desking drive has been accompanied by a countervailing trend, in which this elite get better facilities. Those who need to concentrate have quiet spaces. Better lighting and air conditioning aim to keep employees healthy. Apple's new headquarters has parks, a meadow and a 1,000-person auditorium. The hope is that when workers mingle or relax, that will spark ideas.

All this looks like a shift towards an airline-style world of work, with economy seating for the drones and business-class luxury for skilled workers, who enjoy some of the benefits once reserved for senior executives. But this is a hard trade-off to get right. WeWork offers a "premium economy" service in which a wider range of workers can get a few perks. But fears that its rental income may be insufficient to offset its $47bn of lease liabilities were one reason its IPO was delayed.

The office is bound to change further. Some firms may ask if it makes sense to have offices in city centres. In an era of remote collaboration, software and documents sit in the cloud and offices could disperse to cheaper places. Mr Neumann's business plan is in tatters. But one of his insights is surely right: the office of the mid-21st century will be as different from today's as the high-tech factory is from the Victorian mill.

The Economist

REGIONAL CAFE: KARNATAKA

A SaaS leader rises from Bengaluru

Capillary Technologies hopes to end this year with a $100-million turnover

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BENGALURU-BASED Capillary Technologies has emerged as a leader in providing Software as a Service (SaaS) solutions for the retail industry in Asia. It started when Aneesh Reddy, co-founder & CEO, and Krishna Mehra and Ajay Modani, all from IIT Kharagpur and in their 20s, decided to quit jobs after about a year at work and put their savings together to follow their dream. They were not propelled by the one big idea they shared; they had to look for one. After much research, they zeroed-in on the new growth areas—mobile and retail. The aspiring entrepreneurs combined both when they launched Capillary Technologies in 2008.

The biggest challenges consumer brands were facing then included an inability to capture customer data, identify consumers visiting their stores, and communicate effectively with them. This is where Capillary stepped in. Built on a big data platform, the Capillary CRM solution enabled brands to use their existing infrastructure to identify and understand each consumer, and directly communicate with them through mobile technology. Capillary made possible what was revolutionary for that time, i.e. card-less, mobile-first loyalty programme for the customer.

As it happened, the founders made the right choice as the cloud-based SaaS was emerging as the next big thing in India. According to trade body Nasscom, as software products move from on-premise to a cloud-based model, the SaaS market has seen a rapid evolution. Instant decision-making, cost-effectiveness, low risk, greater flexibility, combined with an increasing mobile workforce and customers is driving the adoption of SaaS.

Capillary's investors also thought as much. By 2012, Capillary had raised Rs 60 crore ($15.5 million) from venture capital firm Sequoia Capital, Norwest Venture Partners and the from existing investor Qualcomm Ventures.

Until then, the company was run on a shoestring budget. With this kind of money, the founders became overambitious. They were also still very young. "We opened 10 offices in 2012 in the US, the UK, Australia, South Africa, Hong Kong and New Zealand." Reddy says, adding that all the money was blown up in 18 months. His two partners were also exiting from the company for different reasons.

By 2014, it was time for the company to pull itself by the bootstraps. Reddy took the tough decision to shut down the loss-making foreign operations. As the company was still doing well in other markets where so much investment had not gone in, investors continued to help Capillary. "We are now focusing on four large geographies—India, West Asia, South East Asia and China," he says.

But how did Capillary enter new markets? Reddy says the existing customers opened up international markets. "Lee Wrangler, our client in India, asked us for solutions for their stores in South East Asia. This is how Capillary entered China three years ago. There was a big white space to be filled in retail-focused CRM products in China. We had to do a lot of localisation for the Chinese market," he adds.

The first step towards building the business was to understand China's digital ecosystem. China is a key market as retail is one of the most developed industries and consumers are also way more informed than their Indian contemporaries. They expect the same kind of experience on both the online platform as well as the offline store from a brand.

Capillary then had to work on localising their existing product. "It included two components: language and functionality," Reddy says. They chose Shanghai as the first base as they had won their first customer there. They also set up an office in Guangzhou in southern China. Capillary was able to quickly localise their product as per market needs. This includes WeChat integration, personalised CRM models, and integration with local platforms like TaoBao.com and JD.com to provide an online and offline customer behaviour analysis capability. It has been able to establish its product acceptance; most of the employees are local, with only three Indians operating out of China. The company has become the main competitor for most of China's CRM service providers.

West Asia is another big market for Capillary. It has recently signed a strategic joint venture agreement with Saudi-based Veda Holding to form Capillary Arabia. The JV will allow Capillary enhanced access to the Kingdom's rapidly growing retail, F&B and manufacturing sectors.

Capillary has been nimble on its feet, keeping up with fast-changing technology and customer needs. To cater to the growing e-commerce market, Capillary acquired e-commerce services and technology company Sellerworx in 2015. It was a year of acquisitions that included digital commerce solution provider MartJack and machine learning company Ruaha.

It has recently launched its first exclusive deals and coupons shopping app DealHunt. The app is a one-stop destination for best offers and deals across 20-plus categories. Consumers can choose from more than 1,000 trusted brands on both online and offline platforms, including fashion, beauty, food, health, travel, electronics and more.

Capillary has today emerged as one of Asia's leading SaaS product companies. Over 400 marquee brands across more than 30 countries, including Pizza Hut, VF Brands, Walmart, Madura Garments, Vaiiram, KFC, Starbucks and Samsung, come to Capillary to enable easy and seamless consumer experiences. It has over 300 million consumers and 30,000 stores on its platform. Over 700 Capillary associates across 11 global offices are working on new ways for brands to make their consumers' lives easier.

Reddy adds Capillary's growth has been higher this year. "We will turn profitable this year. We will get our P&L in shape and concentrate on internal accruals of 25-30%. Retail in Asia is still growing. Saudi Arabia, Indonesia and Thailand remain big markets. We hope to end this year with a $100-million turnover."