

The global recession and its impact on india



Meaning of the word “ Recession” represents a temporary period of economic fall down during which trade and individual activity are reduced. Till present, the world has seen a number of economic recessions that brought the trade market and various economic states to a standstill and left the economists and analysts with valuable lessons to be learnt for future and calculating ways to move out. This research paper will try to explain the term Recession in a detail manner and will bring to light the past recessions that affected us and the world by creating bad history. Globalization and liberalization have helped a lot in making the entire world a close knit economic unit. In today’s interconnected global economy, recession and economic turbulence in one part of the world has the potential to ruin the economies of other countries in a great way. The economic slowdown in US economy in 2008 caused by the burst of housing bubble and its trade activities has engulfed the entire world in its grip. This research paper aims to give a deep account of US Recession-2008 and its impact and results on Indian Economy. Although, turbulence is detrimental to economic development but even during turbulent times, opportunities do exist where one can develop or protect its own economy slow down.

Therefore, in tough times many Indian companies came out with innovative strategies and new ideas to apply for generating business and expand their falling market shares. In their sense to successfully survive the terrible economic turbulence, some Indian companies took Rural Marketing as a strategy to escape and way to counter act the negative impact of recession. This research paper will try to throw light on the evolvment of new concept of Rural Marketing and how Indian companies used their resources and

inventories to tap rural markets and successfully sustained themselves during the recession effects.

KEYWORDS: Recession, Economic Turbulence, Strategy

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INTRODUCTION

Recession is a part of an economic cycle, which goes always beyond a normal economic limit of an individual. The economic slowdown that started in US in 2007 with its effects turned into a global shock and turned out to be called “ The Second Great Depression” with its disastrous effects on the Indian economy. So India adopted some new strategies to refrain recession. As a solution to this economic problems India developed some evolving business strategy which are:

Focus on core business

Improved process and efficiency

Strategic divestment

Rural Marketing

Contingency planning

Acquisitions and strategic alliances

Increased advertising and marketing

Research and development

Human Factor

Above listed can be main criteria of Indians who work to move out of the trap placed by the recession. As a result the recession that shook the economic equilibrium of a major super power like US could not demolish the Indian economy.

RECESSION

“Recession” is defined as a period of general economic low down, typically a decline in GDP for two or more consecutive quarters. A recession is typically accompanied by a large drop in the stock market, an increase in unemployment, and a big fall in the housing market. A recession is actually less severe than a depression, where when a recession continues long enough then it is classified as a depression. Recessions are largely believed to be result of a widespread drop in spending. Governments usually respond to recessions by adopting strategic movements, macroeconomic policies, such as increasing money supply, increasing government donations and decreasing taxation.

WHAT CAUSES RECESSION?

When an economy grows over a period of time then it turns to slow down which is a part of the normal economic cycle. An economy generally expands for some years and leads to go into a recession some time. A recession

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widely happens to a place when consumers lose confidence in the growth of the economy and spend less or lose the ability to spend sufficient. This ends to a decrease in demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment where masses are left jobless suddenly. Investors reduce to spend as they fear stock values will fall and thus stock markets fall due to the negative sentiment.

IMPACT OF RECESSION

Unemployment

Main impact of a recession is on employment which leads to low employment for several quarters. Majorly low-skilled, low-educated and inexperienced workers and newcomers are most vulnerable to unemployment in a downturn of economy.

Business

Productivity of business tends to fall in the early stages of a recession, and then rises again as weaker firms close shop due to high losses. The variation of income and losses among companies rises sharply.

Social effects

Fall of living standards of people dependent on wages and salaries are more affected by recession than due to decrease in wages and salaries while those who rely on fixed income or welfare benefits are also heavily affected. This is due to a decrease in per capita income. The growth of unemployment is known to have a negative impact on the stability of families, and individual's health and well-being.

HISTORY OF RECESSIONS

Global Recessions

The IMF sees that global recessions seem to occur over a period of time lasting between some years. During what the IMF has gone through the past global recession where the global per capita output growth was zero or negative. Economists of the International Monetary

Fund (IMF) says that a global recession would incur a slowdown in global growth to three percent or less.

The Great Depression

The first Great Depression was a severe over worldwide economic slowdown, from 1930-1939. It was a period of high unemployment, low profits, low prices of goods and high rise poverty. The trade market was ended into a standstill, which widely affected the world markets in the 1930s. Industries that suffered the most consisted agriculture, mining and logging. The timing of the Great Depression was different across nations, but in most countries it started in about 1929. Another Great Depression was experienced recently which had origin from U. S. in 2008.

US RECESSION-2008

The financial crisis of 2008-present was sparked off by United States banking system. It has resulted for the reason of the collapse of large financial institutions, the bailout of banks by national governments and decline in stock markets around the world resulted in bankruptcy of big companies. In many areas, the housing market has also suffered greatly, it resulted in numerous evictions, foreclosures and prolonged vacancies gave rise of

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unemployment. It is regarded as worst financial crisis since the Great Depression of the 1930s by many economists. It led to the failure of key businesses with declines in consumer wealth estimated in the trillions of U. S. dollars, by substantial financial commitments incurred by governments, and a significant decline in economic trades. The crumple of a global housing bubble, which was raised in the U. S. in 2006, which was the reason for the values of securities tied to real estate pricing to plump thereafter, damaging financial institutions globally.

Major Cause

The immediate cause or pull of the crisis was the bursting of the United States housing bubble. Developed scenario and losses on other loan types also increased significantly as the crisis expanded from the housing market to other parts of the economy.

IMPACT ON INDIA

Since US being the major super powers, a recession-mild or deeper will have eventual global consequences and effects. The crisis lastly developed and spread into a global economic shock, showing infection in a number of European bank failures, declines in various stock indices, and large reductions in the Indian market value.

A slowdown in the US economy was surely a bad news for India because Indian companies have major outsourcing deals from the US clients. India's exports to the US have have been developed over the years. But this affected to India and successfully weathered the great financial crisis of September 2008.

Finally question that can crawl in our mind can be:

Why did India suffer so little in the Great Recession that laid low the biggest economies of the West?

There are many factors that saved the Indian economy from the bad consequences of the global recession. India being a nation whose market is majorly dependent on agriculture; hence it supported India from getting laid off like other affected countries. In those times Indian banks and financial institutions had almost entirely avoided buying the mortgage-backed securities and credit which turned to be toxic and felled western financial institutions. While India's merchandise exports were highly hit by the Great Recession but service exports did not fall as IT and BPO exports held up good. Foreign direct investment went high despite the global financial crisis. Financiers reversed flows into India, but long-term investors in plant and factories kept moving on their ongoing projects.

The Indian government helped as RBI lowered interest rates and expanded credit value. The government cut excise duties to match demand. All these factors cushioned the shock on the Indian economy. In such tough times, many Indian companies came out with an innovative strategy to generate business those are

Focus on core business**Improved process and efficiency****Strategic divestment****Rural Marketing****Contingency planning****Acquisitions and strategic alliances****Increased advertising and marketing****Research and development****Human Factor****Focus on core business**

Most of the companies started to focus on their core competencies during turbulent economic times. While the Companies who did diversify and focused away from their core competencies often struggled to manage their businesses whereas companies that remained focused, or tried to focus on their core created opportunities to move up their market share more easily from their competitors.

Improved process and efficiency

A common thing existed among the companies is the process by which they implemented their strategy and tackle failures during recessions. It seemed logical that process efficiencies were the main reason to break the costs from budgets during a recession. All the companies should be flexible and should act with fast action oriented as these are the keys for surviving and prospering during recession. Flexibility will allow the business to implement new recession strategies quicker than the competitors in market.

Strategic divestment

Divestment is taking away possessions from others or deprive of authority. Most companies divested parts of their business during recessionary periods. Actually these divestments were the part of a strategy of cutting costs and generating short term liquidity, especially where less profitable divisions were divested. For the companies, here divestment was the technique used to raise cash to service debt and fund for further investment. However it is important to know that most divestitures made must be of divisions that are not in-line with the company's long term strategic view, or differed from the company's core-business aligning the recession times.

Rural Marketing

A rural market represents a community in a rural area. Recently, rural markets have acquired significance in countries like China and India, as the overall growth of the economy has resulted due to increase of purchasing power of the rural communities. This happened due to the green revolution in India, the rural areas are attracting a large quantity of industrial and urban manufactured products. Using awareness of this a special marketing strategy, namely, rural marketing became the shield of many companies during recession times. Rural marketing involves delivering manufactured inputs or services to rural producers or consumers. Also rural marketing is vital because of the saturation of the urban markets. So the marketers are looking for expanding their product categories to an unexplored market i. e. the rural market. This led to development of new the CSR activities being done by the corporate to help the poor people attain some wealth to spend on their product categories and services.

For eg:

Project Shakti of HUL is not only helping their company attain revenue by helping the poor women of the village to earn money which is surely going to increase their purchasing power.

ITC E-Choupal, is helping the poor farmers get all the information about the weather and the market price of the food grains they are producing.

Using Rural marketing as a strategy to fight global recession

Rural India consisting of 70 per cent of the country's one billion population (According to the Census of India 2001), is not just having an increase in its income but also in consumption and production of new products. This was the reason of rural consumer market growing by 25 per cent in 2008 when demand in urban areas slowed due to the global turbulence.

Maruti Suzuki

The global meltdown period the Indian car industry was severely affected. To compensate for the loss, Maruti planned to tap the rural market by appointing 2, 000 sales executives to target customers with special schemes for village panchayats, rural teachers and rural officers. A mobile van was decided to put on standby to provide car servicing at the villagers doorstep. Where, the company offered discounts ranging from Rs 3, 000 to 8, 000 on various models in the rural markets. Companies this strategy in rural areas and middle class cities pushed the company's sales during the period of recession.

Mobile industry

The rural mobile market in India was targeted by mobile operators which added millions of subscribers every month. The industry's overall subscriber base grew by 48 per cent in 2008 during April 2008 to June 2008; 8 million were from the villages, that is more than 30%. Of the mobile subscriber base which grew in leaps and bounds. As result Bharti-Airtel saw its profit in the three months climb to 22 billion rupees, up 25 per cent from a year earlier, as it drew more number of new subscribers.

Tata tea

During the time of recession Tata Tea also initiated marketing to rural India and reported increased sales. Tata Tea's new rural marketing initiative "Gaon Chalo" in UP was the reason for rise in share from 18 percent to 21.4 percent. Tata Tea surveyed that it was not selling in more than 100000 villages in UP. So Tata Tea decided to tie up with NGOs to penetrate rural markets. Hence Tata Tea formed a unique channel of distribution with NGOs.

Contingency planning

Companies should plan some alternate strategies for such adverse times well in advance of them occurring. This is more important as it keeps in never too late to act, as it is necessary to survive turbulent times despite of having no specific plan for the recession can be harmful. Generally, in most of cases when the downturn hits, the companies moves for a quick assembled a plan and put in place a strategy for dealing with such adverse conditions.

Acquisitions and strategic alliances

There are some reasons where acquisition of competing or allied businesses is seen as a good strategy by some companies in a period of economic downturn. The 'entry price' is likely to be less than before as businesses are operated under stress or to liquidate assets. This means that companies can acquire targets that may otherwise have been out of their reach. There may also be less competition for acquisition because some companies make available the resources to make acquisitions during such periods. Sometimes businesses become available for acquisitions that were previously been unattainable, as they fight to deal with a downturn.

Increased advertising and marketing

This is known to be one of the biggest mistakes business owners make during such periods of economic slowdown is to cut back on marketing and advertising, and it is found that doing this could be the worst to their business. An effective Advertising might help to handle downturns and strengthen demand for their core products. On other hand, the marketing needs to be more aggressive and more widespread than ever. This can be achieved by contacting past clients and simply touching base. So many companies adapted to this strategy to compensate their decline in sales.

Research and development

In recession period companies should develop the new way of R&D to meet the increasingly diverse needs of their recessionary customers who seek greater value from their spending. Here companies should also try to increase their speed to market with new innovative products to gain advantage over their competition. They must do this by prioritising

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development of the most promising products and assurance to meet the immediate needs of their customers.

Human Factor

Human Factor plays vital role in such times as lot of people apply for a job due to rise of unemployment so companies should make sure that they ought to have the right folks for the job. If possible, the company should get everybody in the team to think lean and productive fast. Firms should be constantly re-evaluating the marketing plan and the business strategies including policies, pricing, and employee performance. This is an idea to develop efficient and effective personnel as possible so the company runs smoothly and profitably. Companies should look closely to the staff of the competitors. Company should organise proper feedback from the workers and customers.

Recession was an Opportunity in Disguise for India

It has been said that “ every dark cloud comes a silver lining”. In this recession era india got some new opportunities to rebuild in eyes of other nations globally. This are :

Recession resulted to low commodity prices, like steel and cement, so construction costs are sure to go down. This should help in making infrastructure and construction more feasible

Crash in Crude prices, that if the prices of petrol and diesel are cut in India, there is scope to see a drop in inflation as well.

Growth in Indian rural marketing would attract the Indian companies who have focused on the west, hence contributing to productivity and prosperity would develop in nation.

Recession is a good time to improve from mistakes done in past. Due to the fall in costs of land, and industries can acquire large parts for industrialization, hence leading to more development and productivity.

Global Mergers & Acquisitions: Indian companies can take over companies worldwide very cheap. By the time the cycle reverts, India can be at the head of the pack.

CONCLUSION

Due to globalized nature of market and businesses all over, the impact of recession at one place or industry sectors generate precipitating effects to all the linked industry and this can be analyzed from the current market situation which is faced by the world. Whether a global recession occurs or not, there are people whose businesses go bad because of the speculation about a recession. It's unbelievably sad but it's a fact that Recession is an unavoidable phenomenon of economic cycle. These recession strategies won't change the business around but it can help to transform one's outlook for the future. In today's world any recession can develop worst results throughout the world but after worsening climate in rich countries the developing countries continued to be pioneers of the global economy and big developing economies like China, India and Brazil grew at an impressive rate and will continue to do so.

Recession have turned down the growth process and have set the minds of many for finding out the real solution to resist and sustain the economic growth. Handling the market and trading in such condition can build a base which runs smooth in all forms of prevailing economy.