



K. L. E. SOCIETY'S
JAGADGURU GANGADHAR COLLEGE OF COMMERCE,
VIDYANAGAR, HUBBALLI - 580 021

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Title of the Project

MARKETING PROBLEMS OF SMALL SCALE INDUSTRIAL
UNITS IN THE GROWING CITY OF BELGAUM

Area of Specialization

DEPARTMENT OF COMMERCE

DR.V R HIREMATH

Associate Professor,

K.L.E. Society's

J. G. College of Commerce, Vidyanagar, Hubballi - 580 021

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University Grants Commission, South Western Regional Office,
P K Block Palace Road, Gandhinagar, Bangaluru - 560 009.

INTRODUCTION AND RESEARCH DESIGN

INTRODUCTION:

Marketing problems of industrial units assume different dimensions depending upon their size, the extent of competition, the nature of products manufactured by them and a host of other factors related either to the product or the market in which they are dealing. This micro approach to marketing problems of firms is equally appropriate to economics of countries in relation to their growth and the overall size of markets for their aggregate output. Thus whether we consider a micro aspect of the business firms or a macro aspect of economics, their growth and stability is largely determined by the extent of markets for their output and the efficiency of their marketing management. Hence, it becomes relevant to consider all the related factors that have a bearing upon these two important aspects of marketing and the marketing problems that arise thereto.

Existence of a sizeable market is a pre-requisite for the growth and even survival of business units, industry and the economy of a country. This aspect has been recognized by both the economists and management experts. Even historical evidence suggests that the growth process of economics and the firms has always been determined largely by the extent of market available for the products. Whether we think of market in the domestic economy or markets in the international trade, the decisive role of market is always felt by business units as well as by national economics. In addition to the existence of markets for growth and stability of firms the management of marketing organization has an equally important influence on their performance and profitability.

Economists and management experts have been stressing the importance of markets and efficiency of marketing management in promoting and sustaining growth both at micro and at macro level over since these stalwarts started writing on economics and on management science.

Adam Smith rightly recognized that the extent of market determines the division of labour and power of exchange that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of market. “He, therefore, emphasizes the fact that growth of the economic activities through division of labour has a definite relationship with the availability and the extent of market”.

It is observed by another development economist Benjamin Higgins, “.....the progress of underdeveloped countries depends not only on their attainments in agriculture and manufacturing but also on the development of an efficient marketing system.”

The various views of economists and management expert point to the need for a distinct shift from production orientation to marketing orientation. In fact, the small scale sector vitally needs marketing entrepreneurship as against manufacturing entrepreneurship since the major deficiency of this sector relates to marketing factors contributing to marketing problems of small scale industrial units.

There are some special factors which cause problems in the marketing of the products of small scale industries. Some of these problems are;

1. Increasing competition from within the small scale sector.
2. Increasing competition from large industries with established brand names and marketing setup.
3. Consumer awareness for quality goods.
4. The need for setting up distribution channels for reaching out widely dispersed markets, and;
5. Highly competitive export markets.

The small scale industrial units are too small. Hence small, size and limited scale of their operations coupled with their inability to set up an adequate network of retail outlets put these units to considerable difficulty in their marketing operations. Small scale industries specifically suffer from many ailments where marketing concerned. Important among them are :

1. Lack of brand name.
2. Absence of places of respectability for the goods of small scale industrial units.
3. Difficulty of identification of proper markets and buyers.
4. Difficulty of undertaking market research and investigation.
5. Difficulty of standardization and quality improvement.
6. Problem of penetrating foreign markets.

Marketing problems of small scale industries could, therefore, be viewed mainly from two angles viz. problems associated with the product and those associated with the market for products. Product associated problems arise from lack of standardization, inadequacy of products and packaging designs, differences in the quality of materials used, insufficiency of

precision and inconsistency in finish of products, etc. The market oriented problems arise from inadequate resources at the disposal of small scale industries for identifying market outlets and market characteristics of their products and also for tapping profitably the existing new market outlets. Small units suffer from lack of up to date market information and the ability to make visits abroad to contact potential customers. They find it difficult to compete with large companies, particularly in respect of consumer goods where brand consciousness is an important criterion. The government's specific support programmes such as purchase and price preference policies have provided only limited assistance to small scale units. The characteristics of the small scale industries create special problems of resources and organization for the marketing of different type of products for different categories of consumers. The economics of scale in marketing and distribution through the use of national media in advertising for product promotion cannot be achieved because of relatively small size of the market share. The small size of the operations results in the business proposal attracting only proprietary or at the most partnership forms of ownership. The organization and financial resources of these small owners may be so inadequate as to inhibit growth and expansion even when market opportunities permit. It is not possible for a small unit to undertake market research and cultivate markets for its precuts on the basis of a field survey. The small entrepreneur's financial limitation prevents him from extending credit facilities to his dealers or distributors to the extent desired by him and consequently the dealers are reluctant to stock relatively unknown products and pay cash for the same unless the returns are lucrative enough to warrant a calculated risk. In developing countries like India the absence of efficient marketing organizations is severely felt. There are scarcely any marketing enterprises which are engaged in meaningful market research on a continuing basis. There are very few distributing organizations which have undertaken promotional functions. Very few so-called marketing organizations possess adequate resources to spend on advertising and so stimulate interest of prospective customers. The economics of developing countries can be greatly expanded, improved and diversified by efficient marketing organizations manned by expert personnel. Small scale industrial units need such organizations more. There is, therefore, need for the small entrepreneur to develop a new attitude and assist in the process of building up powerful and prosperous marketing organizations. Such organizations go a long way in helping these units to get a share in domestic, government and foreign markets. The need for having marketing organizations is particularly useful for the small scale industrial units when they are facing large buyers like government purchasing authorities. Individually

these units are too small to meet the large demand of such agencies. They have to work in concert and develop a reliable and promotional marketing organization.

REVIEW OF LITERATURE:

A good deal of writing has taken place on small scale industries in recent years. Various aspects of the organisation, management, finance, planning and policy and marketing have been covered by research and reference works by academicians, researchers and administrators. Here the researcher has made an attempt to refer to some of the writings on marketing aspects of small scale industry in India during the last one or two decades.

Vasant Desai (2015), has made an in-depth study of small scale industries in his book, "Management of Small Scale Industries". He has extensively dealt with the various managerial aspects of small scale industries viz., performance and policies, institutional assistance, capital and finance, marketing and promotion, etc. He enlists some major marketing problems of small scale industrial units viz., competition from within the sector, as well as from large industrial units, consumers awareness, need for setting up distribution network and the difficulties of entering export markets. He further elaborates the marketing problems of these small scale industrial units. "... due to their size, limited scale of operations, and inability to set up an adequate network of retail outlets...." He suggests that any marketing organisation for the sales of products of cottage, tiny and small scale industrial units should be encouraged.

A.P. Sharma (1978), while tracing the evolution of a fast growing small scale industrial sector with active government support maintains that the perspective of marketing assistance to these industries has to undergo a change both in complexion and emphasis. He feels that they do need varying types of assistance to meet changing market challenges in different types of markets i.e., urban, rural and export markets.

Vivek Deolankar (1989), affirms that marketing is the primary responsibility of small scale units and not that of the State because they are privately owned and marketing efforts depend essentially on the initiative of the owner or manager. He maintains that government can only assist and advise on such matters as quality, product, costing, pricing, promotion, selection of distribution channels or in evaluating contribution made by distribution intermediaries.

J.M.L. Tambi (1973), makes a fervent plea for formation of consortia of marketing groups among the small scale industrial units. In his article he pleads for co-operation among

various small manufacturers engaged in allied lines of manufacture to pool together their resources, skill and ingenuity for an aggressive market promotion drive.

P. M. Mathew (2005), in his article "Small Industry - Waiting for New Deal" has observed that the experience from globalization indicates the need for a new policy approach to the development of small and medium enterprises. Mr. Mathew has indicated that the liberalization policy kick started in 1991 involved major changes. He further stated that the socialistic pattern of society gave place to an era of market driven policies. The political economic dimension of small scale industry development was significantly replaced by simple economics which focused on competitiveness of global rule.

P. B. Nimbalkar (2001), in "Role of International Finance in the Development of SMEs" has expressed the view that key elements enhancing global competitiveness of the SSIs revolve around an easy access to credit, technology, marketing information and simplified systems. The author was stated that with the changing consumer preferences and demand patterns standardization of quality and competitive pricing are the buzz words. Mr. Nimbalkar has observed that globally the role of international finance in the development elements in the market determined strategies of development.

Sunil Kumar and Neetu Bala (2007), in "An Evaluation of the Impact of Economic Reforms on the Growth of Indian Small Scale Sector" the authors have explored the impact of economic reforms on the growth and productivity of Indian small scale sector. Their study has shown that economic reforms process initiated in the early nineties has had a downbeat impact on the growth and productivity of small scale industries. The average annual growth rates of key growth parameters such as number of units, production, employment and exports have been found to be tapered off in the post reforms period relative to the pre reform period. The analysis of the total factor productivity growth has revealed that the total factor productivity was completely driven by a technological regression during the post reforms years. The authors have concluded that Indian Economy has failed to render any positive impact on the growth and productivity of small scale industries.

M. R. Narayan (2004), in "Determinants of Competitiveness of SSIs in India" the author has focused on the analysis of quality and cost of infrastructure facilities and business environment and their impact on competitiveness of India's small scale industries. The author

refers to such infrastructure facilities as transport, market information, credit, power, water, telecom, technology, up-gradation and quality certification. The results of the study indicate that low quality and high cost transport facilities power, water supply, lack, of market information, inadequate credit facility and low technology have lesser effects on competitiveness of SSI's in Bangalore region than in other regions.

OBJECTIVES OF THE STUDY:

The present study aims at identifying the marketing problems of small scale industries in Belgaum city. This main objective is intended to be achieved through the specific objectives mentioned below: Assessing the impact of the structural dimensions of these small scale industrial units on their marketing dimensions:

1. Evaluation of the existing channels of distribution of the small scale industrial units covered by the study and its impact upon the marketing process of the units.
2. Analyzing the trends in the geographical distribution of the markets for the units and to study its implications for the marketing of the products of these units.
3. Studying the composition of buyers of the products of these small scale industrial units and to understand the implications of the same for the process of marketing of the respondent units.
4. Examining of the existing facilities of storage and transport for these small scale units and the problems encountered by them in this area.
5. Analyzing the assembling, grading and standardization aspects of these units and to identify the problems encountered by them.
6. Assessment of the present position of these units with regard to advertisement and sales promotional aspects.
7. Studying the magnitude of credit sales by these units and the nature of problems encountered by them in this regard.
8. Analyzing the pricing policies and practices of these small scale industrial units.
9. Making a critical appraisal of marketing strategies followed by these units in the areas of marketing research, marketing organization and planning, grading strategy etc.

METHODOLOGY:

The present study is basically an empirical inquiry based on descriptive and analytical approach. However, wherever necessary adequate theoretical explanation is provided. Field survey type of research is undertaken to arrive at conclusions relating to various functional aspects of marketing.

Both primary and secondary data were made use of in the preparation of the thesis. Primary data were collected from sample units by means of interview schedule directly administered to the respondents. The original draft of the questionnaire was considerably modified through a pilot study and pretesting before it was finalized.

A total of 80 small scale industrial units have been selected at random from about 400 units covering, (i) casting iron and steel (foundries), (ii) polyester series (iii) general engineering (iv) pharmaceutical (v) food products (vi) adhesive tape (vii) industrial valves (viii) pipe, tunnel, sanitary wares (ix) chemicals (x) agro based industries.

Secondary data were collected from government agencies like the Department of Statistics, the District Industries Centre, the Department of Industries, Reference Works Published by Official and Non-official Sources, Research papers Published and Un-published,

SCOPE AND LIMITATIONS OF THE STUDY:

The study is confined to small scale industrial units located in the five industrial estates of Belgaum City only viz., (i) Anigol Estate, (ii) Kanabargi Estate (iii) Honaga Estate (iv) Udyambag Industrial Estate and (v) Kasbag and Vadagaon Area. Small scale industrial units were selected for an in-depth study on the basis of the magnitude of investment in capital equipment and machinery conforming to the definition of smalls scale industrial units as per the latest declaration by the Government of India. Small scale industrial units set up in other areas were not covered by the study on grounds of feasibility.

ORGANIZATION OF THE STUDY:

The research study is presented in the following five chapters.

First Chapter: 'Introduction and Research Design.'

Second Chapter: 'Small Scale Industrial Units in Karnataka.'

Third Chapter: 'Small Scale Industrial Units in Belgaum city - A General Overview of Marketing Organization and Marketing Problems (Product Related).'

Fourth Chapter: 'Marketing Problems (Marketing Related) of Small Scale Industrial Units in Belgaum city.'

Fifth Chapter: 'Summary of Major Findings and Suggestions for Improvement.'

MAJOR FINDINGS AND SUGGESTIONS FOR IMPROVEMENT

MAJOR FINDINGS:

1. Small engineering units predominate in the small scale industrial sector in the area chosen for field survey. The growing commerce and industrial activities in the city and the district have led to greater demand for these products and services of the small engineering units.
2. Single ownership units dominate among the small units covered by the survey. This is due to involvement of limited amount of investment in the chosen units and the unfamiliarity of the entrepreneurs with the company form of organisation.
3. More than 85 per cent of the small scale units covered by the survey belong to the investment range of Rs.2 crores or less. This SSI because of the limited financial resources available to the entrepreneurs and also limited market for each unit in the chosen industry.
4. Mono-product small scale industrial units are more in number compared to the number of units producing more than one product. These mono-product firms are in the lower ranges of investment.
5. Product modification to suit changing pattern of consumers' tastes and performances was not much favored by a large number of small scale industrial units in the lowest range of investment. Product modification was favored relatively by more units in the higher ranges of investment. Actual product modification has been done by a very small number of the small scale industrial units covered by the survey.
6. A large number of the small scale industrial units covered by the survey have ignored the importance of proper packaging, while a moderately good number of units are very much interested in good packaging of their products. These two group of units are more in lower ranges of investment.
7. The small industrial units in the area covered by the study distribute their products mainly through wholesalers (47.50 per cent). Retail distributor's account for 26.25 per cent, agents account for 6.25 per cent, while other small scale industrial units distribute their products through their own depots to the tune of 1.25 per cent of their total output. A combination of different channels account of 18.75 per cent of the total.
8. There is a high concentration of markets in Belgaum city area itself for the products of the small scale industrial units covered by the survey. The local market accounts for more than 70 per cent of their product.
9. The small size of the units restricts their market to the local area itself. In relation to investment ranges also the same trend is discernible. Units in higher ranges of investment are

found to sell their products to markets outside the city and outside the district and outside the state too. Sales made to buyers outside the State are found to be done through agents, while sales done through wholesalers and retailers are made locally or within the district and within the State.

10. Investment magnitude of the small scale industrial units has no influence on the type of buyers for their products. It is invariable the private buyers who account for the highest percentage of purchase from these units.
11. Among the buyers of the products of these small scale industrial units industrial users account for the highest percentage (36.25 per cent) followed by consumers (25.00 per cent) and others.
12. Lorry services are made use of by the largest number (61) of small scale industrial units as the means of transport accounting for 76.25 per cent of the total number of 80 units covered by the survey. The rest of the small scale industrial units use either mini-lorries or tempo for their transport requirements. None of the units covered by the survey used services of railways for their transport requirements. A large number (49) of the small scale industrial units did not face transport difficulties, while a smaller number (31) of units did face some difficulties in obtaining adequate transport facilities.
13. The small scale industrial units have ignored the important function of grading as 52 out of 80 units have not resorted to grading, while 28 units have been grading their products.
14. The small scale industrial units covered by the survey have not been using the services of experts in the assembling of goods meant for sale.
15. All the small scale industrial units covered by the survey have realised the importance of standardization. However, the technical knowledge regarding standardization of quality, size, etc., is absent in as many as 17 small scale industrial units, while a large number of 63 units possess the needed expertise in this area of marketing.
16. Responses regarding the need and importance of advertisement was very encouraging since 55 units out of 80 positively asserted the importance of advertising their products. Only 25 units did not feel the need for advertising their products.
17. The annual expenditure on advertisement has been in the range of Rs.20,000 to 1,00,000 for the majority of small scale industrial units covered by the study. The small size of operations and financial limitations are the reasons for this limited expenditure on advertisement.

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18. Pricing practices followed by the small scale industrial units covered by the survey show wide variety of divergence. As many as 24 units do not have any definite pricing policy. They go by market conditions. Another 21 units set their prices through negotiations with their buyers as these units are ancillaries to the large units. Investment ranges have also a bearing on the pricing policies of these small scale industrial units. Usual pricing practices are related to cost, competitors' prices, demand and market conditions and negotiations with the buyers.
 19. The small scale industrial units covered by the survey do not have any well-planned marketing organisation. This lacuna is more pronounced with the units with investment of less than Rs.300,00,000. Well-planned marketing organisation with trained managers is found with only 1 unit in the investment range of Rs.100,00,000 or less. In the units in other ranges of investment too the number of trained managers has been very small.
 20. The small scale industrial units covered by this study were found to be indifferent to the important function of estimating the requirements of finance, transport, storage, packaging, channel of distribution, etc. The incidence of this flaw is more pronounced in the units with low amount of capital investment.
 21. The small scale units were also found to be by and large less aware of the price trend, demand trend, government policies, bank policies and policies of other financial institutions towards the small scale sector. Units in the higher ranges of investment have shown greater degree of awareness about these aspects compared to those in the lower ranges of investment.
 22. The small scale industrial units in different ranges of investments have in general affirmed the positive impact of branding on the buyers of the products. However, only a few units to not seem to be convinced of the importance of branding. The number of units adopting branding is smaller than those who have not adopted branding. This trend is more pronounced in the first three ranges of investment, while the number of units adopting branding is more in the subsequent two higher ranges of investment.
 23. The positive effect of using brand names on the sales has been largely affirmed by the small scale industrial units covered by the study. Units in all the ranges of investment show greater degree of acceptance of the correlation-ship between branding of products and higher sales. Hence, differences in the levels of investment is not associated with differences in sales due to use of brand names.

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24. After sales services to buyers have been extended by a very few of these small scale industrial units.
 25. All the small scale industrial units covered by the survey maintained that bank finances were needed for various aspects of marketing functions. The largest number of 40 units needed bank finance to sustain credit sales, followed by other aspects like storage costs (16), advertisement cost (9), salary for salesmen (7) and for meeting the agents commission (3) and cost of secondary packaging (2) were the factors compelling them to obtain bank finance. Most of these small scale industrial units found the bank accommodation inadequate.
 26. Money - lenders accounted for the highest percentage of the other sources of finance for these small scale industrial units. Financial inadequacies have resulted in an increase in marketing cost to the tune of 20 to 30 per cent in case of 56 of the 80 units.
 27. Tax burden seems to have adversely affected the profits of a very few small scale industrial units. However, majority of these units do not subscribe to this view.
 28. Majority of the 52 out of 80 units seem to be unaware of the various incentive schemes provided by the government. A good number of these units suggested difficulties in obtaining the available incentives.
 29. Industrial sickness caused by marketing problems was accepted by all the small scale industrial units covered by the study. A large number of these units felt that industrial sickness due to marketing problems was around 30 to 40 per cent.
 30. Incidence of faulty government policies have been ascribed as the more important factor causing marketing problems among the small scale industrial units, followed by price competition, lack of advertisement, inadequate support from government/financial institutions, higher marketing costs, inadequate standardization, faulty grading inadequate storage, and inadequate assembling.
 31. Maximum number of 60 small scale industrial units suggested that change in the present policies of the government and adequate support by the government would solve their marketing problems.

SUGGESTIONS FOR IMPROVEMENT

1. A small entrepreneur has to adopt a proper approach to the major areas with a strategic planning "mix" among which marketing should be the important one. It could be as under.

Strategic planning "mix" needed for an entrepreneur

Production	Product mix so that over reliance on one product and one technology is avoided	Coping with problems when technology of the buying unit changes.
Marketing	Supplying to more than one unit and not becoming over dependent on one	Coping with times when large buyer unit itself is in difficulties.
Personnel	Mix of full-time and Part-time personnel.	Coping with availability and turn-over and keeping wage cost low
Finance	Mix of own and borrowed funds	For overcoming liquidity crisis for survival needs.

2. Marketing entrepreneurship as against manufacturing entrepreneurship needs to be developed to solve the problems of marketing of small scale industrial units.
 1. Assistance for marketing of products of small scale industrial units should be given priority by government and other national level organizations like SIDBI, SIDO etc.
 2. Proper product designing with the help of experts in planning/engineering of product would go a long way in meeting the changing pattern of customers' tastes and preferences.
 3. A broad based product mix would be suitable to take advantage of scale economies and to overcome the risk of concentration on one product.
 4. Product modification to suit the consumers demand and to compete effectively with the competitors should be given due attention by the small scale industrial units.
 5. The policy of the Japanese small scale industrial units of not depending on one big unit for supply of their products should be emulated by small scale industrial units in India.
 6. Timely payment by bigger industry to small scale industrial units for their supplies needs to be ensured by SIDBI and other financial institutions by way of making finance to the bigger units for this purpose.

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7. Market forecasting through proper techno-economic research needs to be undertaken by associations working for the promotion of small scale industrial units. The Karnataka State Small Scale Industries Association (KSSIA) is a good example for other States.
 8. Market intelligence system needs to be promoted for export oriented small scale industrial units for studying world-wide trends for their products. This is helpful in relocating their markets quickly in case of changes in demand for their products in the existing markets.
 9. Small scale industrial units manufacturing identical products should have a consortium approach in marketing their products. This will help them in improving their bargaining power in pooling and grading the products of individual producers thereby encouraging standardization. Other advantages could include avoiding competition among small units, undertaking market surveys, advertising, etc.
 10. Small scale industrial units should try to hold marketing clinics to provide required data base. Specialists could appraise products and help in providing information about design, packaging, quality, weight, size and other factors that effect marketability, cost and price.
 11. Small scale industrial units should try to increasingly exploit the rural market for a number of consumer goods as this virgin market has vast potentials due to green revolution and vast population.
 12. Government of India should consider setting up a Central Marketing Organisation for distributing unbranded products of small industry. Such an organisation would fill up a big marketing gap in marketing of the unbranded products of small industry. Similarly at State level State Marketing Corporation should be set up for this purpose.
 13. There is need for organizing well-knit consortia of export marketing groups of small exporters preferably with identity of interests of lines of manufacturers.
 14. "Mobile Marketing" can be experimented by small scale industrial units by carrying the products to the doors of the buyers through mobile vans.
 15. Small scale industrial units can follow a judicious and flexible policy regarding the credit sales. This becomes necessary to sell less known products in the market.
 16. The small scale industrial units should adhere to the following policies relating to costs and prices.
 - a) Keep classified records of expenses,
 - b) Arrive at exact cost structure,
 - c) Decide major elements of cost control,

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- d) Take measures to reduce unremunerative costs,
 - e) Keep a close watch on the market trend of prices,
 - f) Take advantage of the rise/fall in competition prices.
 - g) Use proper incentive as proper times,
 - h) Revise prices when these become unremunerative.
17. Small scale industrial units should study the science of advertising properly and plan in advance their advertising programmes taking into account competitors' strategies, the opinions of their distributors and their own available resources.
 18. The small scale industrial units are likely to encounter the problem of brand consciousness among the consumers. Hence, these units should try to adopt brand names for their product. The brand name should be short, simple, easy to spell, easy to read, easy to remember and easy to recognize.
 19. Consumers products have to be packaged well. This should be considered as an important part of the marketing plan as the package can have a second use after the product itself is consumed. Good packaging has a greater appeal particularly in sophisticated domestic and export markets. A nicely designed packaging is an advantage in such markets.
 20. Quality marketing centers should be set up at each centre (industrial estate, etc.) to provide facilities for technical guideline, finishing and testing for the manufacturers to help them to standardize their goods.
 21. Small scale units manufacturing consumer durables must provide necessary after sales services to retain the goodwill of buyers and to enhance the image of the firm.
 22. Banks should be encouraged to provide more credit facilities to small scale industrial units through larger amount of refinance facilities by SIDBI and NABARD.
 23. Fiscal concessions should be further enhanced to enable these small scale industrial units to improve their competitive strength.
 24. Trade organizations and other State level Corporations working for the promotion of small scale sector should try to build up awareness among the small scale industrial units about the incentive schemes and facilities. They should also try to remove bottlenecks in obtaining these incentives and facilities from the government agencies and financial institutions.