CHAPTER 2

2.0 OBJECTIVES, SCOPE AND METHODOLOGY

2.1 OBJECTIVES

This work aims at studying the marketing approaches and practices of the Small Scale industrial units. Specifically this research covers:

- a study of the existing marketing systems and the operations of the SSI units manufacturing selected food products in Ernakulam District.

- analysis of the existing channels of distribution as employed by these units - in terms of patterns employed, tasks undertaken and deficiencies.

- a study of the perceptions of the SSI units as regards the Channels - their importance with reference to performance and relationship.
The focus is on:

Approaches to Channel Management and their perceived importance.
Approaches to Channel Management and perceived strength of outcomes.

2.2 SCOPE

This research pertains to selected categories of Small Scale Industrial Units involved in manufacturing and marketing specified food products. It tries to look into the processes and decisions related to the channels of distribution employed by these units for marketing their produce. Channels of distribution, more referred to as the 'place' element in the marketing mix of a firm, is a controllable variable. The type of product being marketed is the major factor which could influence decisions in this area.

Hence, the small enterprises to be studied had to be from homogeneous groups.
Initially the small scale units in the Mini Industrial Estates (MIE's) were identified. But a preliminary survey of a few MIE's revealed that the incidence of sickness was high among the units. Moreover these units were engaged in manufacturing, processing and servicing and issues with respect to marketing were not different from those of firms outside the MIE's. So this category of SSI firms was not taken up for study exclusively.

The state Government in 1988-89 announced five thrust areas in which new SSI projects would get special incentives and concessions. These areas were food, electronics, rubber/leather, pharmaceuticals and garments.

From these categories this research has been restricted to one product group - Food products. Even in this group a variety of products are being manufactured by the SSI.

A study about channels of distribution of all product categories would have made the research cumbersome and would have led to less focused attention to the intricacies of the operations of this function.

So the target categories under study included just those SSI units that manufacture and market Bread, Biscuits,
Spices and Pickles. Only those units that had obtained Permanent SSI Registration from the Industries Department up to 1989 were included in the study. The source list for these units was the Directory of Industries, Ernakulam District published by the District Industries Centre in 1990. This is the only authentic and most recent document available in the state which lists the registered SSI units in the district of Ernakulam. The units have been classified based on the region and products manufactured.

In 1990 a national census of SSI units was commenced by the Development Commissioner (SSI), with the active involvement of the SISI and DICs of the respective districts. According to information obtained from the Directorate of Industries and Commerce, Kerala, though field data collection is over the details are being compiled and the report is yet to be published. Hence, the details from this census could not be used in this research.

2.3 RESEARCH DESIGN

The area of research having been defined, the researcher...
2.3.1 THE PURPOSE AND BROAD AREA OF STUDY

The first step was to define the purpose of the research and to identify the board area of study. Since the researcher has been working in the field of entrepreneurship and small enterprise development, for the past many years (since 1983), he had noticed a number of grey areas with reference to small enterprise development and management, that need a closer study. Marketing the produce of the SSI sector is one area which demands this in-depth scrutiny. A cursory look reveals that though things seem to work, the SSI promoter often face situations where the commercial viability of his project is at stake or even non-existent. While a variety of causative factors can be listed, this study proposes to explore one of the crucial elements of the marketing-mix, ie. channels of distribution, of these Small Scale Units.

2.3.2 PRELIMINARY DISCUSSIONS

The area of research having been defined, the researcher had a series of discussions with senior officials and experts of organisations and agencies involved in the promotion of the Small Scale Industries Sector. These persons included:
2.3.3 LITERATURE REVIEW

Relevant literature was reviewed. The sources for this included the libraries of:

- Centre For Development Studies, Trivandrum
- Centre For Management Development, Trivandrum
- School of Management Studies, CUSAT, Cochin
2.3.4 SPECIFIC PROBLEMS AND ISSUES

The researcher having been exposed to the operations of the small enterprises sector, could list a series of issues that need deeper understanding. Specific problems and issues were listed for the purpose of gathering relevant data.

2.3.5 SOURCES OF DATA

Primary as well as Secondary data were required for this research.

2.3.5.1 Secondary data

Secondary data pertaining to the subject under study was collected from various sources. The source of secondary data include organisations and agencies viz.

- Directorate of Industries & Commerce, Govt of Kerala
- District Industries Centre, Ernakulam
- Kerala Small Scale Industries Association, Ernakulam Unit, Ernakulam
- State planning Board, Trivandrum
- District Information Office, Ernakulam
2.3.5.2 Primary Data

Primary data had to be collected from the Small Scale Industries themselves. A representative sample for each product group was taken. A pretested questionnaire was developed and used to collect responses from SSI promoters. Along with the questionnaire, there were detailed unstructured interviews with the promoters.

2.3.6 SAMPLING

2.3.6.1 Sampling unit

For this study only those units which manufacture the selected items of food products viz. Bread, Biscuits, Pickles and Spices are included.
2.3.6.2 The source list

The details regarding population of small scale industries registered with the Directorate of Industries and Commerce was taken from the District Industries Centre (DIC), Ernakulam. The DIC, Ernakulam had brought out a Directory of SSI, pertaining to the Ernakulam District in 1990. The directory provides the name and addresses of all registered SSI units in the district of Ernakulam. Classification has been made based on products and also the region, in the Directory.

The food products manufacturing SSI firms formed a major group in the total list. Of the 170 product groups with 7543 firms listed in the Directory, 14 categories involved food products (Table 1.3.J), with 1143 units. i.e. this category forms about one seventh of the total number of units in the District.

Of these, it was noted that, a few categories consisted mainly of servicing/job work units eg. oil mill, flour mill, etc. Since such units already had a ready made market, they were excluded from this research.
2.3.6.3 Sampling procedure

The sampling was done based on the following factors:

- Only units that are involved in manufacturing and marketing were included.

- Products of varying shelf-life were included so as to account for the perishability element of the items.

- Exclusively export oriented units were excluded eg. frozen prawns etc.

- Sample was to include firms from rural and urban areas.

- Sample was to be drawn from each of the selected product groups separately.

Stratified sampling was done to select samples for collection of primary data. The strata in the first stage was based on the products manufactured. Only those homogeneous groups of SSI units with respect to the products under study were selected ie. Bread, Biscuits, Spices and Pickles. Within these product groups, the units
were further stratified based on the region in which each unit is located. The regions as given in the directory are Panchayats, Municipalities and Corporations. From the above classification, sample units were picked out randomly with the help of a random number table generated by personal computer (PC).

Table 2.3.A provides details of number of units in each product category falling in the different regions. It was noted that according to the registration details, there were units that manufactured either bread alone or biscuits alone and also units that manufactured both bread and biscuits. Hence samples were drawn from all these three groups though only two products were involved. The pickles and spices manufacturing units formed the other two groups.

As Table 2.3.A shows, there were 119 units manufacturing Bread and 108 units manufacturing Biscuits, with 84 units falling in both categories. Thus the total number of units manufacturing these four products in actual add up to 305. If the numbers are added up product wise, the total would be 389 units.
Table 2.3.A : Region wise break up of SSI units* in Eranakulam district

<table>
<thead>
<tr>
<th></th>
<th>CORP</th>
<th>MUNC</th>
<th>PAN</th>
<th>SUB</th>
<th>TOT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread</td>
<td>12</td>
<td>6</td>
<td>17</td>
<td>35</td>
<td>119</td>
</tr>
<tr>
<td>Bread &amp; Biscuits</td>
<td>32</td>
<td>19</td>
<td>33</td>
<td>84</td>
<td>108</td>
</tr>
<tr>
<td>Biscuit</td>
<td>15</td>
<td>5</td>
<td>4</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Pickles</td>
<td>5</td>
<td>3</td>
<td>8</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Spices</td>
<td>44</td>
<td>27</td>
<td>75</td>
<td>146</td>
<td>146</td>
</tr>
<tr>
<td>Total</td>
<td>108</td>
<td>60</td>
<td>137</td>
<td>305</td>
<td>389</td>
</tr>
</tbody>
</table>

* Selected product groups included in this research
Source: SSI Directory, Ernakulam District, INDFEST.

2.3.6.4 Sample size

The population of SSI units under study was 305 units. A census survey was not undertaken due to two reasons:

a. The topic under study and the research methodology employed was to visit the respective units individually. The geographical spread together with the time and financial constraints ruled the census survey unacceptable.
b. While a census inquiry would appear to be ideal, which would provide the highest level of accuracy in observation, this may not be true in practice. There is a chance of even a slight element of bias getting larger and larger (ref. 27.p.68) as the sample size becomes bigger.

The sample size was fixed as 15% of each product category, including a provision for sample loss. Since the Pickles category had a small population of 16 firms, the sample size is taken as 4 units ie. 25%. See Table 2.3.B

Table 2.3.B: Sample size providing for sample loss

<table>
<thead>
<tr>
<th>Product</th>
<th>Sample (providing for sample loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRD</td>
<td>18</td>
</tr>
<tr>
<td>BIS</td>
<td>16</td>
</tr>
<tr>
<td>SPI</td>
<td>22</td>
</tr>
<tr>
<td>PIC</td>
<td>4</td>
</tr>
</tbody>
</table>
2.4 INSTRUMENTS FOR DATA COLLECTION

2.4.1 SECONDARY DATA

A check-list was prepared for collecting information from the different sources of secondary data.

2.4.2 PRIMARY DATA

A questionnaire was developed as the basic tool for collecting primary data. It was structured so that the primary objectives of this research could be addressed to. The following factors were kept in mind while the instrument was being developed.

a. to obtain a profile of the SSI units in these product categories.

b. to understand the extent to which scientific management principles are employed in their operations

c. to identify major problem areas related to their performance

d. to study the importance they perceive in a scientific approach to marketing
e. to identify the channels of distribution engaged by these units
f. to study the internal arrangements they have for carrying out the marketing operations
g. to assess the support they receive from the channel members
h. to gain a view regarding their approach to the function of marketing
i. to understand their perceptions regarding a few specific approaches they may make and the perceived impact of these approaches on channel member relationship and performance.

2.4.2.1 The following twelve approaches, that the SSI managers can take with respect to marketing their products, were taken up for detailed study:

1. To reward channel members for better performance
2. To punish channel members for poor performance
3. To guide and advice channel members on how to perform
4. To take the role of a leader for directing the operations of the channel members
5. To insist on regular and periodic communication about the activities, problems and results.
6. To fix sales targets for the channel members
7. To limit expenses towards channel members
8. To use own distribution vehicle
9. To distribute products only directly to consumers
10. To use many channels together
11. To select all channel members on their own
12. To assess periodically the performance of channel members.

2.4.2.2 These twelve approaches were chosen from a set of forty, which forms a subset of the innumerable possible ones that any industrial enterprise will have to take in the case of operations. First, forty possible approaches were listed. Of the forty, twenty pertained to aspects of relationship between the manufacturers and channel members. The other twenty pertained to aspects of operations / performance by the channel members. The two sets were then assessed by a panel of experts. The objective was to identify relevant and applicable ones for small enterprises. The experts included consultants, industrial promotion officers, bankers and trainers who have interacted with small enterprises and their promoters for many years.
Of these, five approaches were chosen considering their relevance to relationship between channel members and manufacturers, and seven, to channel performance. These two sets were then included in the research tool to get first hand assessment from the small industrial unit operators/managers on how they view them.

The respondents were first asked to mark if they would take each one of those approaches with reference to the operations of their units. The response could be an 'yes', a 'no' or 'not certain'. Those responding 'yes' were then requested to mark how important that approach was in relation to their unit: 'important' or 'extremely important'. Those who would not take the approaches were to record if it was 'unimportant' or 'extremely unimportant'.

2.4.2.3 It was anticipated that the respondents, could be from any one of the following groups; those using multiple channels for the distribution of their products; those using only a single channel; those using their own outlets and no external organisations; those who are not manufacturing and so are not distributing and finally those from units that are either sick or closed. For recording the response to the above set of approaches one of the following methods had been taken:
a. the respondent records his option based on present experience (i.e. if using single or multi channels)
b. the respondent records his option based on past experience (i.e. when he had earlier been using some external channels of distribution)
c. the respondent records his choice based on what he would do if in case he plans to use an external channel of distribution in future (where he uses only his own outlet at present)

In the next stage, possible outcomes of the various approaches were listed. The respondents were asked to record their perceptions regarding the possibility of these outcomes if each one of the above short-listed approaches are taken by them. The possibility of each outcome for each decision could be 'extremely positive', 'positive', 'no effect', 'negative' or 'extremely negative'.

The listed outcomes for the five decisions that could affect relationships were different from those plotted against decisions pertaining to operations and performance. (See Questionnaire)
2.4.2.4 Approaches that could affect relationship with Channel Members

Five approaches were identified which could affect the relationship between the SSI manufacturer and the channel members. While it is obvious that every approach the promoter takes would have a bearing on the total performance of the channels, here, these decisions were studied in relation to their perceived effect on relationship.

Considering inter organisational relationships with reference to channels of distribution, power, leadership and conflict are the three basic elements. The power bases are identified as reward power, coercive power, expert power, referent power and legitimate power. (Bowersox. et al. 1980).

Reward power, coercive power and expert power bases were included for analysis. The perception of the SSI manufacturers regarding approaches with respect to the above three power bases were taken for analysis. (D1, D2 & D3 respectively).
Leadership is the use of power to improve an existing system and thus individual performance. To understand the perception of the SSI manufacturers, a possible decision (D4), to take up the role of a leader for directing the operations of the channel members was included.

Communication forms the basis for free flow of information between the channel members and the channel and environment. Effective communication has a direct bearing on the efficiency of the channel. One critical aspect of communication ie. regular and periodic communication of market information from the channel members to the small scale industrialist, (D5), has been taken up for understanding the perception of SSI manufacturers.

The above five decisions were first studied with reference to how the SSI manufacturers perceived their importance in relation to their operation in the market.

Subsequently seven possible outcomes were listed. The respondents were required to state on a five point scale against each decision, to what extent each outcome could be expected ie. 'extremely negative' to 'extremely positive'. The mid-point indicated 'no effect'.

The anticipated outcomes of the shortlisted approaches were: cooperation, dependence, satisfaction, trust, conflict, good-will and sales. Of the above, the first five relates to aspects of relationship between the SSI manufacturer and the channel members. The sixth relates to the manufacturer's acceptance in the market and the seventh, to the unit's performance.

The above are the specific behavioural and relational outcomes sought to be studied with reference to the approaches referred to earlier.

Besides the possibility of these outcomes, the effect of these decisions on sales also, as perceived by the small scale industrialists, was taken up for analysis.

2.4.2.5 Approaches that could affect performance of the unit

Seven approaches were included in this part. Accepting that an industrialist would have to make decisions on a wide spectrum of aspects relating to performance, only those relevant to the area of channels of distribution have been taken up. Even in this area, it was observed that every possible approach could not be taken up for detailed study.
Hence only seven decisions pertaining to a few specific dimensions of operations have been selected from a larger list of twenty.

The first approach in this set (D6) deals with the SSI manufacturers' choice to fix sales targets for the channel members in terms of quantity or value. The firm's continued existence depends on steady demand for the product. Sales is generated by different strategies. They would include, catering to specific market segments, adding to time, place or value utility of the product offered or by providing incentives. So broadly, the approach would be based on the market pull or the market push approach. Fixing sales targets would fall in the later category where the channel members, through pressure of punishment or reward are forced to provide a certain level of sales. Considering that the SSI manufacturer too has to ensure a specific level of sales to be economically viable, this decision appeared to be valid and so was included in the study.

Another approach (D7) relates to controlling the costs incurred towards channel members by reducing expenses on incentives, gifts and other promotional tools aimed at channel members. By containing the total expenses, the small industrialist would be able to increase his profit
margin. It was felt that the SSI manufacturers' perception about this decision would be important so as to understand how he viewed its effect on performance.

The third approach (D8) studied was regarding the SSI manufacturers' need for using own vehicle as against hired vehicles for distribution of the products to the next level in the channel. In cases where the manufacturer directly sold to the consumers also, the choice of using own vehicle was studied.

Another aspect that was probed into was about the manufacturers' approach (D9) to avoid all external organisations in the channel and effect sales directly to consumers. The manufacturer's assessment of how effectively they could reach on their own, their consumers, would provide insight into their dependence on the channels of distribution.

Multiple channel approach (D10) was taken up for study with reference to the SSI. Usage of many channels simultaneously, while posing problems of complexity in management and horizontal competition, would aid in distributing the product to a wider area to a larger number of consumers. To understand how the small industries
managers view this arrangement was the purpose in including this decision.

The manufacturer's need for controlling the action of the channel members so as to get the best results is taken as the premise for posing a situation where all the channel members involved in distribution of his products are selected by the small industrialist himself. Will such a decision be taken or not; or is it an irrelevant approach decision. The SSI managers' views on this aspect was sought. (D11).

Yet another approach (D12) listed, was one to assess periodically the performance of channel members. This decision entails that the manufacturer critically evaluates the performance and achievements of the channel members on a regular basis. It also requires the SSI manager to have a structured data/information gathering mechanism. This decision also reflects the manufacturers' power over the channel members in as much as demanding and recording performance details.

The respondents initially stated if they would take these approaches in relation to their units operations; and to what extent they were important or unimportant.
Subsequently, the perceived effect of these approaches on aspects viz. sales, distribution costs, good will, customer service efficiency and relationship with channel members were studied. The respondents stated if there would be a positive or a negative impact on these measures if each one of these decisions were taken by them.

Aspects viz. sales and goodwill and the possible effects on them were studied in relation to all the twelve listed approaches. The respondents were also asked to state the existing level on a five point scale from 'EXTREMELY HIGH' to 'EXTREMELY LOW' as regards various factors with reference to their experience in the market. These factors included cooperation, dependence, satisfaction, trust and conflict - all relevant to relationship between the manufacturer and channel members. Factors relevant to performance, including sales, costs, goodwill and efficiency in customer service were also rated on the above five point scale.

2.5 FIELD WORK FOR DATA COLLECTION

The study required both secondary data and primary data.
2.5.1 SECONDARY DATA

The Senior Executives or the officers-in-charge of Small Enterprise development activities of the bodies involved in this were contacted in person. The researcher received much insight into the process of planning, implementation and practical issues influencing the achievement or non-achievement of targets, through these discussions.

The registers and documents maintained by the above departments or agencies and their publications if any were used as source of secondary data.

2.5.2 PRIMARY DATA

Primary data was collected by the researcher himself from the sample units. These units spread over the entire district were approached over a period of two months.

A questionnaire-cum-interview method was adopted to elicit all required information from the units. The researcher called at each unit and met the promoter, the manager or the person in charge of the operations to gather information as per the questionnaire. After the questionnaire was filled, a closed book approach was taken
during the unstructured interview. In many cases, it was felt by the researcher, that the defensive tone taken by the respondents earlier was suddenly lost. This approach helped gather much real issues and facts that the respondent would not have otherwise revealed.

Some of the units had to be approached more than three times before the proprietor could be met in person. There had been two cases where the proprietors refused to co-operate.

Generally, the response had been encouraging as most of them were sincere and exhaustive in responding to the various queries. There were quite a few units that could not be traced as either the address was incomplete or the unit had been shifted to new premises unknown to the old neighbourhood. Some of the units that had been closed also could not be studied as the responsible persons could not be contacted; either because they had left the station or because they did not want to co-operate.

2.6 DATA ANALYSIS

Once the data collection was over, the filled questionnaires were checked and edited. Incomplete
questionnaires were removed. Contradictory responses were crossed checked where ever possible.

The responses recorded in the acceptable questionnaire were then fed into the computer. Data was entered using the DBASE III PLUS software package. The entered data was further cross checked with a manually recorded transcription sheet with the same data. The questionnaires were coded with a unique key number and a category code:

- Biscuits - BIS
- Bread - BRD
- Spices - SPI
- Pickles - PIC

Interpretation of the data was based on contingency tables prepared using EPI software package. The DBASE III PLUS package also was employed for interpretation purpose.

2.7 WRITING THE THESIS

The thesis was finally drafted based on the various phases and findings of the research.